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Nation's Business

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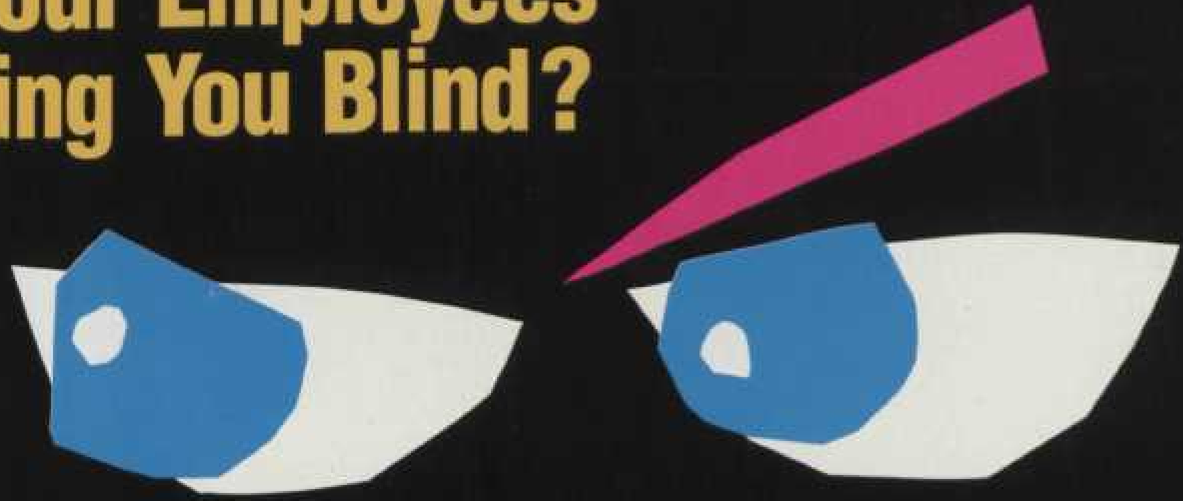

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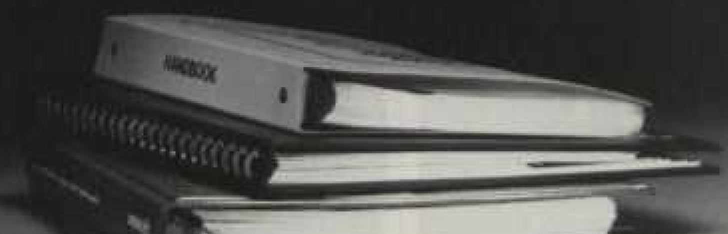
Product knowledge is all you need for professional selling.

☐ True

☐ False



A thorough knowledge of your product is certainly vital to you as a professional salesperson. You must know your product so you can explain its features, its benefits to your prospective customer. But product knowledge alone is not enough. You must also have an abundance of PROSPECT KNOWLEDGE. You must understand the psychology of the decision-making process, what makes your prospect decide to buy or not to buy your product.

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VOL. 75, NO. 6

Nation's Business

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MANAGING YOUR BUSINESS

John W. Bender, president of Bender Lumber Company, Bloomington, Ind., says he learned the hard way that, in his business, "thefts can be quite devastating." (Page 16)

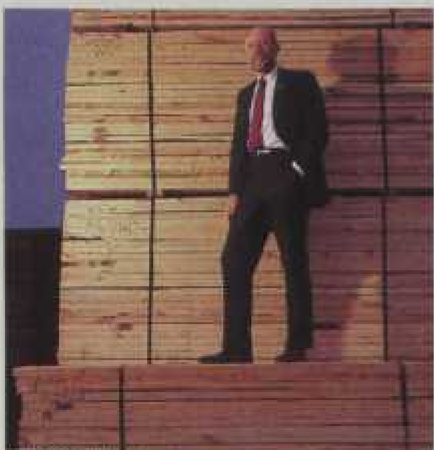

PHOTO: SCOTT GOLDSMITH

Conversion franchising appeals to franchisors who want to expand, like Gary Blumenthal of Tinder Box International, as well as to franchisees. (Page 28)

DEPARTMENTS

Steve Crossland graduated from licensing USC's logos to licensing logos for more than 80 colleges and universities. (Page 46)

PHOTO: CHRISTOPHER CASLER

Cover Design: Michael Bierut—Vignelli Associates

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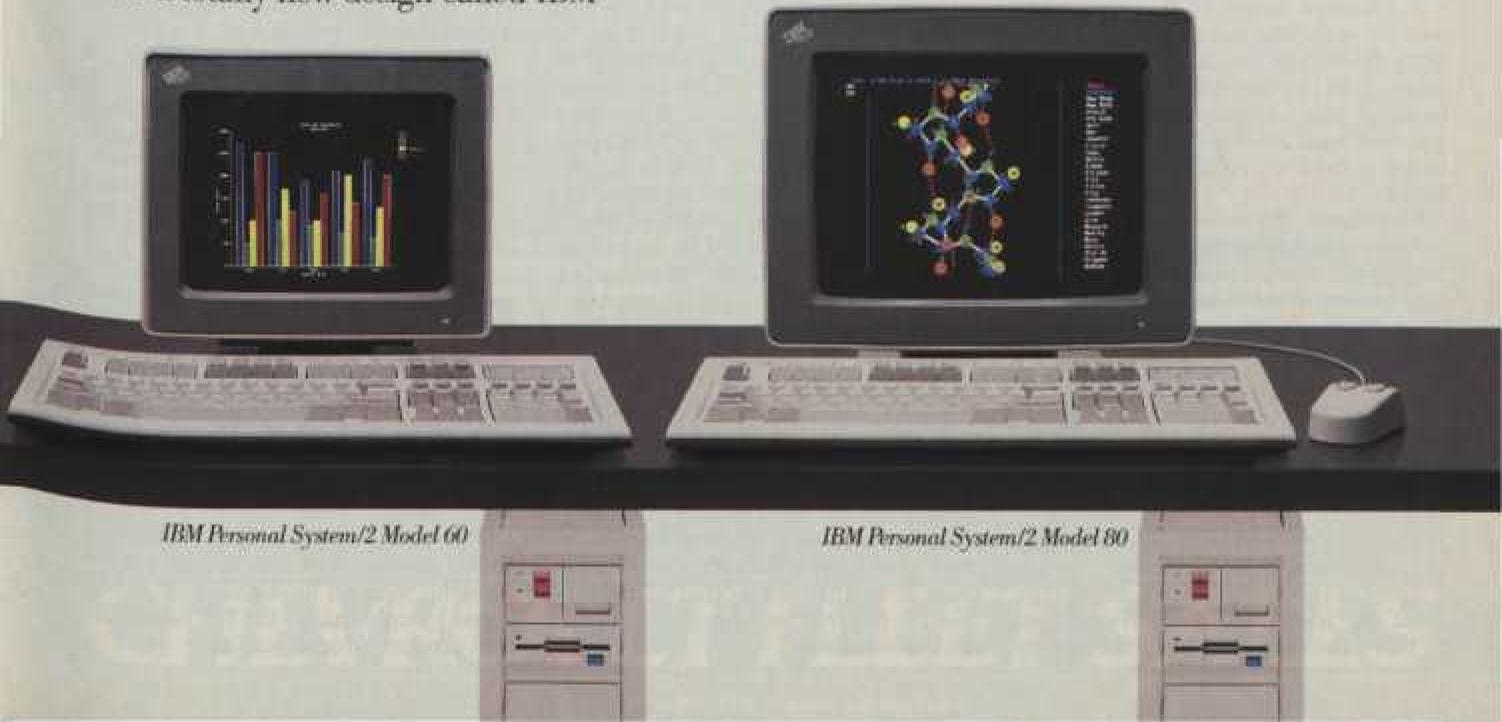

IBM Personal System/2 Model 60

IBM Personal System/2 Model 80

COMMENTARY

Who's Gored By Gouging?

By Henry Altman

Mind churning, I lie in bed wide awake one night, and finally it comes to me. I know how to make a screwdriver that never will slip from any slot—an immeasurable help in turning even the most uncooperative of screws. What's more, lying there, I figure out how this paragon of tools can be produced, distributed and brought to public attention for only a quarter.

A visit to a machine shop the next day confirms my thinking. So I arrange to have my product patented, manufactured and marketed.

Now: What to charge for it?

"It is common for profits to enrich not just their owners, but also the lives of others. They do so by creating jobs, government revenues and desired products."

Setting prices for products or services is a problem most readers of this magazine face, and the right answer is not always easy to come by.

A business owner or manager without an accurate picture of all costs, both fixed and variable, can underprice—and go broke. On the other hand, if you overprice, you may find yourself with too small a market or too large a field of competitors—and go broke.

Sometimes, if you do it right, you can enhance your product's image and enlarge your market with a higher price that has no link to cost or quality. It is even possible, through snob appeal, to set a price far, far above cost. The same can be true for a product—frivolous or practical—that has novelty appeal, which is what is involved in this discussion.

Here I am with a dynamite item that costs me two bits but that, judging by preliminary market tests, could be sold in large quantity for 25 bucks.

The conventional wisdom is: Charge what the traffic will bear. Would you, in this case? Or would you feel guilty about taking so remarkable a markup?

Specialists in business ethics focus on Wall Street insider information and takeovers, companies' environmental impacts, apartheid ... but not on so-called price gouging.

W. Michael Hoffman, director of the Center for Business Ethics at Bentley College, Waltham, Mass., says:

"I guess my position is that if you have the only water hole on an island all by itself in mid-ocean, you should refrain from setting your price too high, but not if there's free competition in whatever market you have. A free market keeps your price down for you—that's the rationale behind antitrust laws. Even if the market's not free, I don't think there should be a limit on the price of a non-necessity."

Come to think of it, he says, he sees no justification for the ticket scalping laws that exist in some places. Hoffman has $21 season tickets for Boston Celtics basketball games. "When playoffs are approaching, there's no question that I could go to Boston Garden and sell a ticket for $500," he says. "If I did, I'd find that my customer was a plainclothesman, and I'd be locked up. Yet you should be allowed to sell a ticket just like any other product you buy."

Hoffman would agree with most supporters of free enterprise that traffic-will-bear pricing in a competitive environment is the best mechanism for arriving at fair prices in the long run. Certainly, regulation is not the answer, as anyone who wants to live in Manhattan can testify. Rent control produced a shortage of rental apartments. Today the 110-story World Trade Center's size pales in comparison to that of tenants' tabs for the fraction of rental units that are not controlled.

Is there such a thing as gouging? Sure. I think the cartel of oil-producing countries gouged in the early '70s. But, as we all know, the conservation that followed the multiplication of prices led to a price collapse. If the sheiks' shakedown had been more gradual, their total take might have been bigger.

Anyway, some argue that, in view of the oil's value to the consumer and its expected eventual depletion, its price had been unrealistically low.

And gouging often exists only in the eye of the beholder. Take the price of Retrovir, the Burroughs Wellcome Company's drug that prolongs lives of AIDS victims. The company estimates annual retail cost per patient will range from $7,000 to $10,000.

Gouging? Burroughs Wellcome notes that it has spent many millions in developing a drug whose success originally was considered highly unlikely, that is expensive to produce and that could well be superseded quickly by someone else's drug.

If the company, which says it already has a "limited indigent care program" on a case-by-case basis for some life-saving drugs, makes big profits on the AIDS drug, where will they go? Well, Burroughs Wellcome is the U.S. subsidiary of a British company that is three-fourths owned by a charitable trust. The trust distributes millions worldwide for medical research.

(The parent company's founders were two Americans who went to Britain in the 19th century to make their fortunes. Henry Wellcome, who bought out Silas Burroughs' interest after Burroughs' death and set up the trust, was a minister's son with twin goals: to get rich and to serve God and man.)

Few businesses are owned by charities, of course, though many are owned by charitable people. However, it is common for profits they earn to enrich not just their owners, but also the lives of others. They do so by creating jobs, government revenues and desired products—like Burroughs Wellcome's.

Who knows what my screwdriver profits would lead to? I might even come up with an unlosable golf ball. I guess I would charge the $25 for my 25-cent product. Would you? NB

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COMMENTARY

Letters

Needed Encouragement

Thank you for your article "Building On Failure" in the April issue.

I am a small real estate salesman experiencing the worst downturn in the market since my entry 10 years ago. It is encouraging and inspirational to read articles such as yours.

Brandt Lucido
Dallas

Who Pays For Increased Wages?

The current minimum wage bill ["Where I Stand," April] is an example of the kinds of policies that prevent our resolving the trade deficit.

Our Asian competitors do not have minimum wage laws. The marketplace determines their wages. Consequently, Asians pursue education and vocational training to attain higher wages.

The small business employer works on a fixed budget. He or she would have a tough time training entry-level personnel at the increased rates proposed. Consequently, business growth would be hindered.

Our forefathers, pioneers from the Old World, built America through sheer hard work and without welfare. That's what the increased minimum wage proposal really calls for—another form of welfare!

William E. and Dorothy L. Conklin
Anacortes, Wash.

Ours is a small saw-cutting company and steel service center just 2½ years young. Since Day 1, with the high costs of materials, equipment, rent, Uncle Sam's share and wages, it has been a tremendous struggle. High labor costs drove steel processing to outside sources like us to begin with. But higher wages means higher bidding. I think you know where the buck ends.

Craig Garrison
Garrett Production Saw Corporation
Toledo, Ohio

We have had only one nonmanagerial employee who has been worth $5.05 an hour. I find an awful lot of people want a job but no one wants to work.

Perhaps there is a way to legislate people to work and to help businesses grow so we can afford to pay those people higher wages.

Nellie M. Ogan
Richmond, Mo.

Dramatic Start-ups

Your commentary in the April issue ["The Real Drama's In Business"] reminded me of an idea that I have tossed around for 10 years. Why doesn't the media chronicle histories of businesses?

I became intrigued with the subject when I was a new hire at Ampex Corporation in Redwood City, Calif. That company's new-employee orientation included a fascinating account of its beginning, which involved captured German equipment and tapes, Bing Crosby's popular radio show, Russian emigrès and radar.

Perhaps *Nation's Business* could publish the Ten Most Interesting Business Beginnings. I'm sure you would find a receptive audience

R.G. Sellers
Mount Vernon, Ohio

Two Steps Backward

Fifty years after Hitler, Sen. Simpson has introduced a law creating a new criminal class without even burning the Reichstag ["Coming Soon: Crackdown on Hiring Illegal Aliens," April]. Instead of disbanding an archaic Immigration and Naturalization Service, he has created storm trooper battalions

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

whose forces and equipment will be increased to seek out and imprison criminal employers.
James S. Garvey
Fort Worth

Our Mistake

In the March issue there is an incorrect statement regarding the amount of PIP's franchise fee ["Franchising: Business Services"]. That fee is $40,000, not $15,000; the *down payment* required for a PIP franchise is $15,000.
Susan E. Perry
Assistant to the President
PIP Printing
Los Angeles

Women's Progress

Your cover package "Women: The Second Wave" [May] has been the talk of our nonprofit, adult vocational training school. Seventy-nine percent of our students are women, and the majority are single parents from 19 to 59 years old.

There is a waiting list to read the magazine, and some of our students have taken it home to study. Thank you for the morale boost these women so greatly needed. They see hope for the future and are learning that anything is possible if they believe they can do it.
Alan D. Martin
Executive Director
Microeducation Assn. of America
Wichita Falls, Tex.

I couldn't help but wonder whether the children of those businesswomen who feel they have willingly made trade-offs to advance their careers would agree that less time with their mothers, working vacations and being fed by babysitters are not sacrifices.
Richard L. Zahn
Grand Rapids

Must Reading

I do a lot of business reading, and *Nation's Business* goes on top of the pile every month. I enjoy its editorial foresight and its design and find much of its contents applicable to my own business. Thank you for understanding small business better than any other magazine.
Roberta Thumim
New York

Nation's Business

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The Nation's Business

By Joan C. Szabo

Business Outlook

Which Way For Rates?

Concern over the future course of interest rates likely will persist despite recent declarations by the United States and Japan that they have acted jointly to adjust their interest rates to stem the dollar's fall, which has strengthened the yen to a point that has alarmed the Japanese.

Prime Minister Yasuhiro Nakasone announced during his recent visit to Washington that he had ordered the Bank of Japan to lower interest rates. And Federal Reserve Board Chairman Paul A. Volcker publicly stated that the Fed had tightened credit slightly, allowing U. S. rates to nudge higher.

The dual effort was designed to make the dollar more attractive and the yen less attractive to investors.

But even before the Volcker statement, U.S. interest rates had started to climb (after a two-year decline) in response to a falling dollar, expectations of renewed inflation and huge budget and trade deficits. What is likely to happen to rates in the coming months?

The consensus view of 50 financial analysts interviewed monthly by *Blue Chip Financial Forecasts*, a Sedona, Ariz., newsletter, is that interest rates will undergo a small downward adjustment in May and June, then edge slightly higher later in the year and during the first half of 1988.

But some economic analysts are even more pessimistic, predicting the rates will move consistently upward, without any down ticks, and the upward trend will continue throughout much of 1988.

A weaker dollar on international exchange markets is responsible for growing speculation that the Federal Reserve Board might eventually tighten credit even further to support the domestic currency. When the dollar falls, U.S. investment values erode for foreigners, whose investments have played a major role in financing the U.S. budget deficit.

A decline in the value of the dollar means the dollars with which investors

CHART: TOM SNORECK

are repaid are worth relatively less than the dollars they loaned. Higher interest rates in the United States and lower rates in Japan would continue to make investments such as Treasury bonds and bills attractive to foreigners. Still, a higher interest rate course in this country is not without risks in terms of the impact on the domestic economy, some analysts warn.

In the meantime, speculation grows over what the Fed will do in coming weeks.

James R. Solloway, director of economic research for the New York-based Argus Research Corporation, says: "The economy is strengthening. Perhaps before the end of this quarter, we will see the first of several increases in the discount rate." (The discount rate is what the Fed charges on loans to member banks. An increase in this rate usually is followed by an increase in the prime rate charged by banks.)

In addition, he says, "the growing fear that inflation is making a big comeback has taken hold, and, from here on, the markets will tend to react more negatively to bad news."

Solloway expects three-month Treasury bills to increase to 6.1 percent in the second quarter, 6.25 percent in the third and 6.5 percent in the fourth. The first quarter figure was 5.35 percent.

But a number of analysts still believe the Fed will show restraint and not pull the credit reins tighter. Higher rates, they argue, could be extremely harmful to what they believe is still a relatively weak domestic economy.

Edward Yardeni, economics director for Prudential Bache, sees an unpleasant scenario developing if rates continue to rise. "A tighter Fed would ultimately result in a recession in the United States," he says.

Mortgage Rates Likely To Dip

Mortgage rates recently spurted ahead along with other interest levels, but housing analysts maintain that the jump in that industry will be short-lived and that rates should again drop a bit.

On average, lenders recently asked 10.2 percent for 30-year, conventional fixed rate mortgages, according to the Federal Home Loan Mortgage Corpora-

DO YOU HAVE MORE INSURANCE ON YOUR P.C. THAN ON YOUR V.P.?

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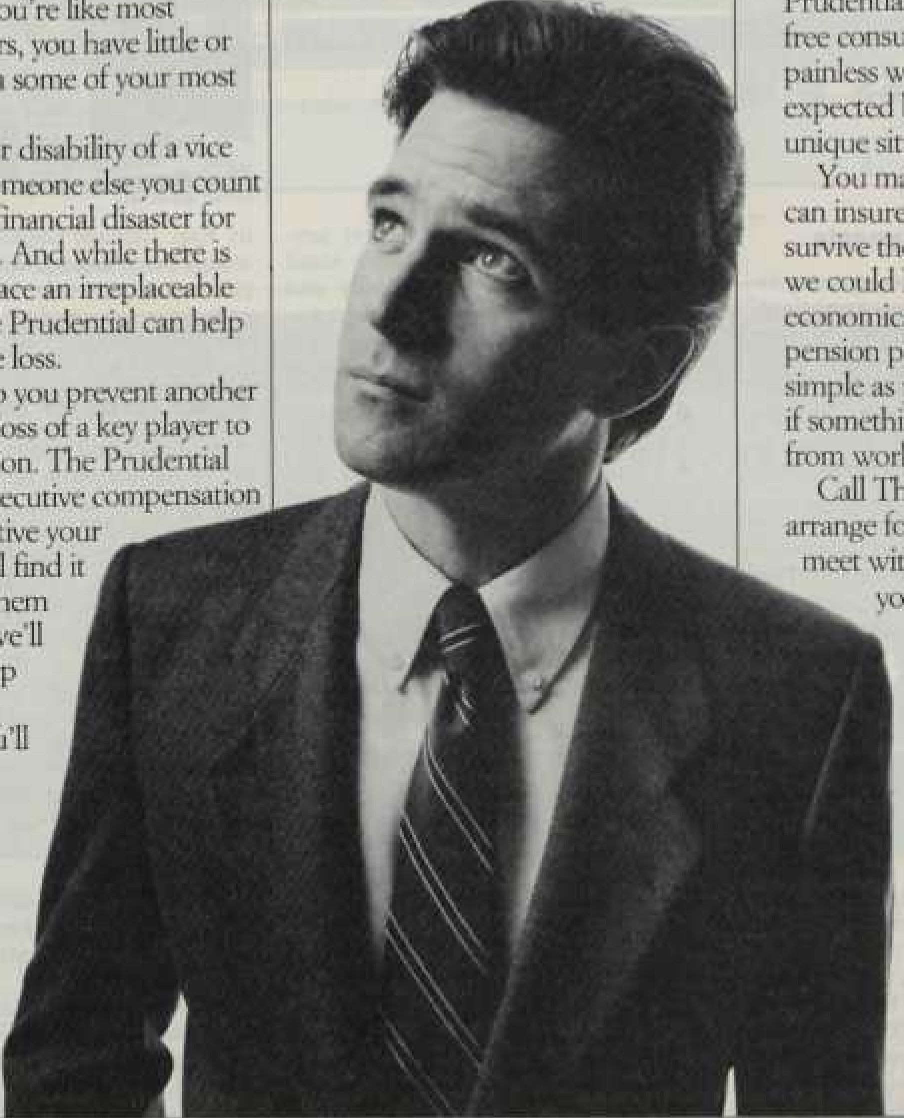

You wouldn't leave your computer or other office equipment unprotected. But if you're like most business owners, you have little or no coverage on some of your most vital assets.

The death or disability of a vice president or someone else you count on could be a financial disaster for your company. And while there is no way to replace an irreplaceable employee, The Prudential can help you survive the loss.

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tion. That is up more than one percentage point from early March, when rates were down to nearly 9 percent, and up from the same time last year, when they were 9.9 percent.

In addition, the government recently boosted the maximum rate on Veterans Administration guaranteed home mortgages a full point to 9.5 percent, reversing a two-year decline.

Analysts attribute the runup in rates to the weakness of the dollar and the recent increase in the prime lending rate. Banks nationwide boosted that rate from 7.5 to 7.75 in late March and to 8 percent at the end of April.

The analysts say, however, that the unusual mix of economic factors, some of them based on international exchange rates and some of them psychological, will not affect mortgage rates to the same extent as interest rates generally.

One factor in the volatility in home loan rates is the procedure in which most fixed-rate mortgages are bundled into securities and sold to big investors such as pension funds. These investors look for yields similar to federal or corporate bonds. The recent higher rates in the bond market have rapidly spilled over to the mortgage market. NB

Small Business Report

House Small Business Committee Chairman John J. LaFalce (D-N.Y.) is pushing legislation that could give small business a bigger role in international trade.

PHOTO: T. MICHAEL KEZA

Helping Small Firms Compete

Legislation to help small companies become more competitive in international markets is making headway in Congress. The Small Business Trade Competitiveness and Innovation Act recently cleared the House Small Business Committee and has been attached to the House-passed omnibus trade package.

Rep. John J. LaFalce (D-N.Y.), chairman of the House panel and sponsor of the legislation, says the measure is intended to address the concerns of small companies "whose problems have been virtually ignored" in the debate over how the United States should respond to its trade deficit.

The Small Business Trade Competitiveness and Innovation Act would provide for the creation of innovative export promotion and technology transfer programs directed at small business at the state and local levels. For example, it would substantially strengthen the Small Business Administration's export promotion program.

In addition, the bill would make available loan guarantees up to $1 million, as opposed to the $500,000 limit under existing law, for the purchase of plant and equipment used in producing goods and services in international trade.

Recommendations the committee received on ways to increase small-business competitiveness included those from Edward Donley, chairman of the executive committee of Air Products and Chemicals, Inc., and outgoing chairman of the U.S. Chamber of Commerce. He outlined a four-point program to strengthen the nation's small business firms, both domestically and in world markets. The plan calls for:

- Eliminating tax, regulatory and other domestic disincentives to business performance.
- Developing and supporting policies and programs to increase exports.
- Eliminating foreign tariffs and nontariff barriers to U.S. trade and investment.
- Providing effective domestic recourse to unfair foreign trade practices and injurious exports.

In addition, Donley called for a national conference on small business international trade and pledged the assistance of the Chamber in organizing such a conference.

The Chamber supports most, but not all, of the trade bill's provisions. It is opposed to the amendment sponsored by Rep. Richard Gephardt (D-Mo.) that would force nations with big trade surpluses to cut their imbalances by 10 percent a year or face retaliation from the United States.

Higher Taxes For Smalls

Many small and mid-sized firms will be hit by higher taxes this year, reports a new study by the New York accounting firm of Peat Marwick Main and the CIT Group, a Livingston, N.J., asset-based financing institution. The average 1987 tax liability for companies with sales of $1 million to $250 million will be up 22 percent.

Only securities and commodities firms will enjoy a tax cut.

The greatest percentage increase in tax liabilities—a whopping 151.54 percent—will be felt by heavy-construction contractors. Real estate firms will have

This Month's NB TIPS

Thinking about franchising your business? If you are, you will want to sit in on a practical conference, "How to Franchise Your Business."

It is being offered in different cities by the U.S. Small Business Administration and the International Franchise Association.

Experts will explain how to get a franchise off the ground.

In Boston, the conference is scheduled for June 2-3; in Seattle, June 16-17; in San Francisco, September 1-2; in Chicago, September 15-16; in Minneapolis, October 13-14; and in Phoenix, November 3-4.

Cost is $125 per person. For additional details, contact the SBA toll free at (800) 368-5855.

the next highest tab, followed by a third category—agriculture, forestry and fishing enterprises.

James J. Egan, Jr., executive vice president of the CIT Group, says the overall tax bill for small and mid-sized companies in 1987 will be an estimated $39.1 billion.

Impact Of A Higher Minimum

A push by Democratic members of Congress to enact a higher minimum wage will aggravate the inflation outlook and reduce the demand for labor, predict some economic analysts. Sen. Edward M. Kennedy (D-Mass.) and Rep. Augustus F. Hawkins (D-Calif.) have introduced companion bills to push the minimum wage from $3.35 to $4.65 an hour.

David D. Hale, chief economist for Kemper Financial Services, Inc., in Chicago, says: "Although the minimum wage has been unchanged for six years, it still affects nearly 6 million workers and often serves as an anchor for pay patterns in service sector industries."

A higher minimum could cause "the non-energy service component of the CPI to rise 6 to 7 percent in 1988 and 1989," he says. NB

Washington Roundup

Sen. Phil Gramm (R-Tex.) calls the House budget resolution "the poorest, most fraudulent budget" he has ever seen Congress consider.


PHOTO: NATION'S BUSINESS

Handbook On Immigration Law

Enforcement of the 1986 Immigration Reform and Control Act begins June 1. The law makes it a federal crime to hire illegal aliens while imposing new penalties on employers who discriminate against workers on the basis of national origin or citizenship.

The statute is a far-reaching one, requiring all employers to comply with it. During the first year of enforcement, companies can be hit with warning citations for hiring illegal aliens. Stiffer civil and criminal penalties begin in May, 1988.

Under the new law, all businesses must verify the citizenship status of new hires—both Americans and aliens—within three days. In addition, employers must keep copies of the verifying documents for three years, or at least one year after an employee leaves, whichever is longer.

To help businesses cope with this complex new statute, the U.S. Chamber has a new publication, *The New Immigration Law: An Employer's Handbook.*

The handbook contains information on employer sanctions, verification procedures and antidiscrimination rules. It also includes a practical checklist and charts showing how to comply with the law.

The single-copy price is $20 for Chamber members and $35 for nonmembers. Volume discounts are available. To order your copy, write Publications Fulfillment, U.S. Chamber of Commerce, 1615 H St., N.W., Washington, D.C., 20062. Prepaid orders only. Be sure to request publication number 7009.

Crafting A Budget

Debate over the 1988 federal budget will intensify as Congress tries to fashion a document acceptable to all sides.

The Democratic-controlled Congress and President Reagan remain at odds over what programs should be trimmed and whether taxes should be raised to meet 1988 budget targets required by the 1985 budget balancing act.

In a recent breakfast debate hosted by the U.S. Chamber of Commerce, Sen. Phil Gramm (R-Tex.) called the House Democratic budget plan "the poorest, most fraudulent budget I have ever seen given consideration by Congress."

The House-passed budget resolution calls for an $18 billion tax hike, but it does not specify how those taxes would be raised. Some excise tax increases, such as higher gasoline, cigarette or alcohol levies, have been talked about as possible ways to raise revenue.

Those who seek a tax hike, says Gramm, "believe there is more fat in the family budget than in the federal budget."

Coming to defense of the House budget, Rep. Martin Frost (D-Tex.) countered that the plan represents "a balanced package with $36 billion in real revenue reductions."

Trade groups whose members would be hard hit by higher excise levies are already lining up to oppose such an effort. For example, the Distilled Spirits Council of the United States has called on Congress to find alternative revenue-raising measures to excise taxes on liquor. F.A. Meister, president of the Distilled Spirits Council, warns that increased liquor taxes will "cripple an industry that is reeling from a 19 percent [tax] increase that took effect in 1985."

The House resolution also calls for spending reductions totaling $18 billion. The White House says, however, that the plan would make excessive cuts in defense spending. The Senate Budget Committee would also raise up to $18 billion in new but unspecified taxes while making some spending reductions.

The assumption that higher taxes are essential to achieving deficit-reduction goals is under strong challenge, however. Says Dan Costello, director of House liaison for the U.S. Chamber of Commerce, "We think the focus of attention should be on the spending side of the ledger, where we feel there is still substantial room to cut."

Some congressional sources say the Democratic fiscal plan is actually designed to draw the White House into compromise talks.

Such a compromise, they say, might involve the President's agreeing to some excise tax hikes and relaxation of the budget deficit target for 1988. In exchange, Congress would go along with some additional funds for defense, more domestic spending cuts and a budget reform package. The latter would include a two-year budget cycle and tougher budgetary ceilings. NB

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COVER STORY

To Stop A Thief

By Harry Bacas

The head bookkeeper in a Florida office equipment firm starts forging company checks to finance improvements to his home, buy new clothes and take a trip to Europe. His thefts, $45,000 over six months, are not discovered until he is on the European trip and the office manager spots her own signature—forged on a returned check.

A contract janitor at a surgical-glove factory in Alabama steals a company chain saw. His supervisor finds out and gets him to return the saw. The janitor leaves for another company, where he steals another chain saw.

The owner of a lumber company in Indiana discovers through inventory shortages that a salesman has used false invoices to steal $20,000 worth of lumber. He brings charges and gets most of the money back. Before the case is settled, the company cashier is found to have embezzled more than $15,000 in cash. Again the owner brings charges, but this time there is no restitution.

Those incidents represent a tiny sampling of one of the most serious problems companies face today—employee theft.

There are as many ways to steal from an employer as there are kinds of business. Employee theft ranges from the grocery clerk munching a candy bar taken from stock to the broker who uses computer techniques to divert hundreds of thousands of dollars from clients' investment accounts.

But the bottom line, according to the U.S. Commerce Department, is an estimated $40 billion annual cost to businesses, 10 times the toll of street crime. And that cost is increasing 15 percent a year.

The American Management Association has estimated that employee theft causes as many as 20 percent of the nation's business failures. Underwriting losses on bonds guaranteeing employee honesty increased 112 percent between 1979 and 1984.

Although department store cam-

"In this business thefts can be large and quite devastating," says John W. Bender, president of Bender Lumber Company, Bloomington, Ind. A salesman stole $20,000 worth of lumber before an investigation of negative inventory finally caught up with him. Bender has tightened his accounting procedures since the theft.

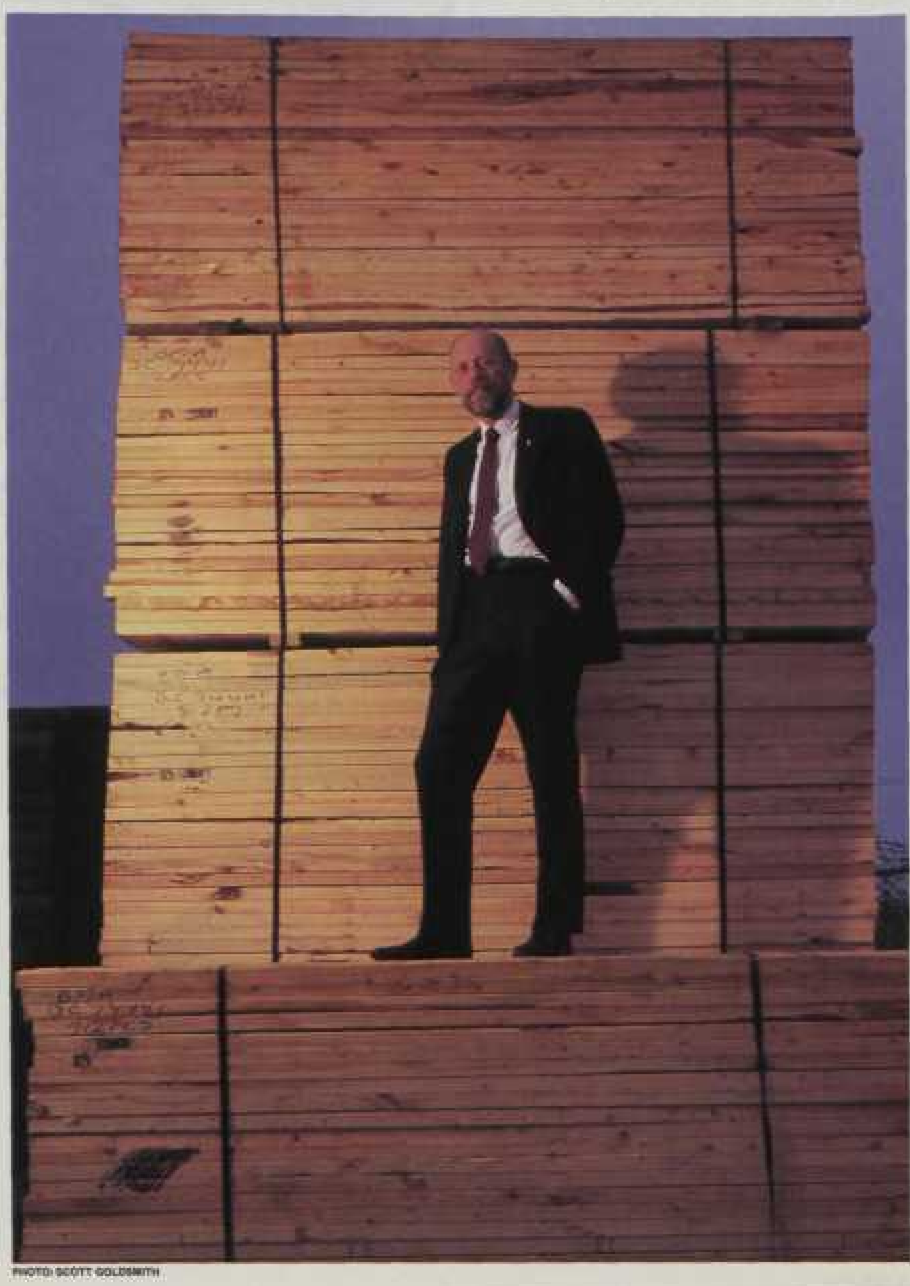


PHOTO: SCOTT GOLDSMITH

There are as many ways to steal from an employer as there are kinds of business. But experts say 90 percent of employees will stay honest if you create an environment that discourages and detects theft.

paigns against shoplifting and news accounts of holdups at convenience stores and gas stations might suggest the major crime threat to business is external, the truth is that those retailers lose far more each year to theft by their own employees.

Who is doing the stealing? One security professional says:

"Ten percent of the people you hire will never steal; 10 percent will steal regardless of what you do; and 80 percent will stay honest if you create an environment that discourages and detects theft. Our job is to keep the first 10 percent, to identify and get rid of the second 10 percent and to protect the other 80 percent against themselves."

Psychologist William Terris, who has written extensively on theft, says the difficulty is that "most thefts are never detected, and those that are detected are probably not representative of theft in general." He and most experts agree, though, that three factors affect whether an individual employee steals:

- Personal integrity. Does the person lack basic honesty: Is he or she predisposed to steal?
- Situational pressures. Has the person incurred heavy debts or financial losses? Does the person seek revenge against the employer? Does he or she see peers stealing?
- Opportunity. Does the person handle money or goods without supervision? Are company accounting controls weak?

The reduction of theft, experts agree, is a more realistic goal than stopping it altogether. They say theft reduction—retailers call it the most significant element in shortage control or shrinkage control—requires an employer to take action in one or more of four areas:

- The company must formulate and publish an antitheft policy.
- It must have effective inventory systems and financial controls.
- It must screen job applicants for trustworthiness.
- It must have security measures to safeguard its property.

Accountant Jacquelyn Hoefer, partner in Kane & Associates, Winter Park, Fla., tells business owners to "get involved, review your monthly statements, have a budget, ask questions. If your people see you taking an interest in something small, they will say, 'Hey, if they are checking that then they must really be checking the big things.'"

PHOTO: BRUCE BORICH

Employers who want to improve their protections against theft can bring in security consultants or they can do something about it themselves. (See "Five Steps To Reduce Theft," page 22.)

John W. Bender, president of Bender Lumber Company, Bloomington, Ind., is doing something about it. He says he learned the hard way that, in his business, "thefts can be large and quite devastating."

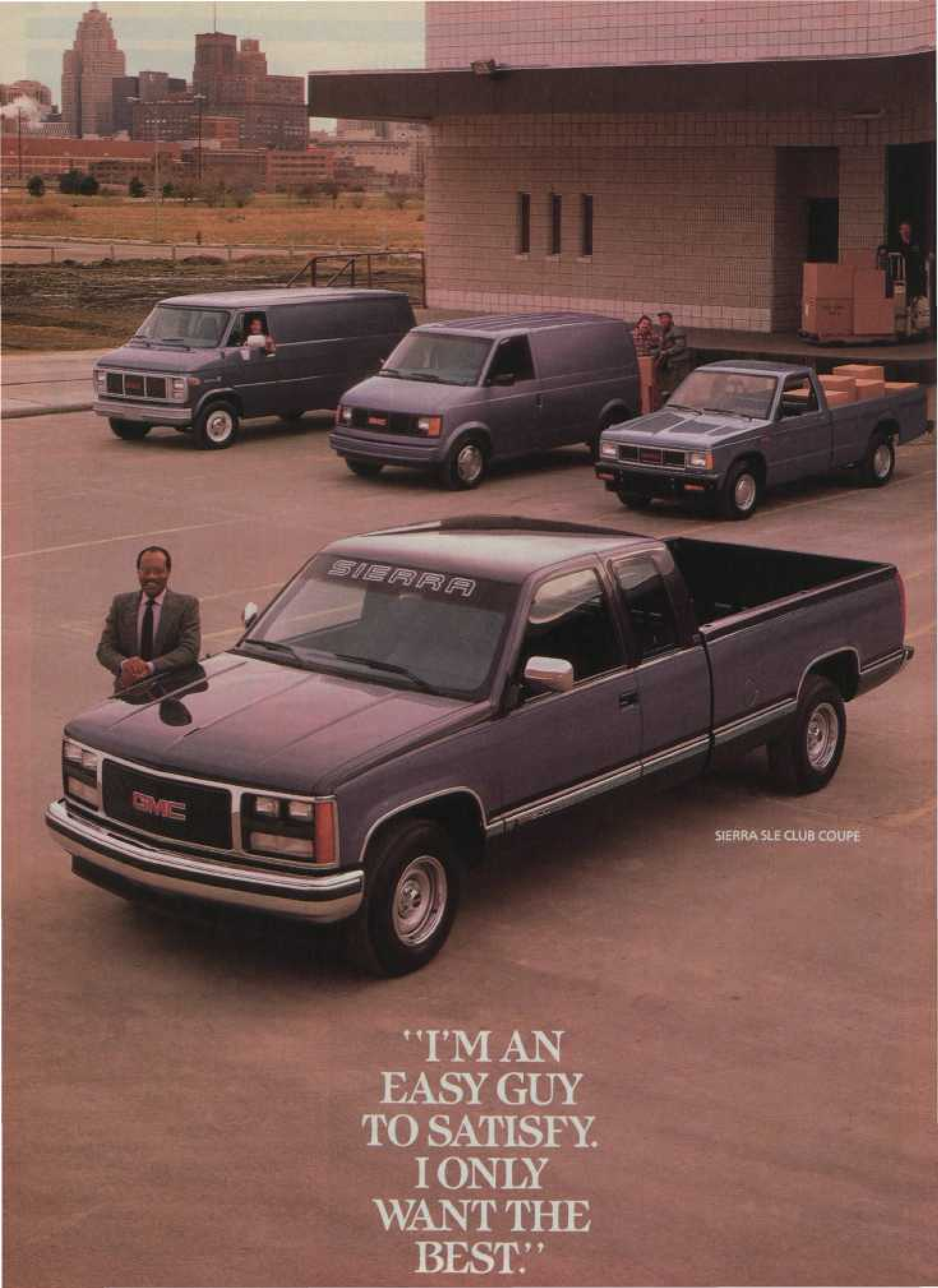
Bender's first shock came when an investigation revealed that a company salesman had made off with $20,000 in lumber. The losses hadn't come to light earlier because the salesman had used fake invoices.

Then, in a case that Bender calls "even more embarrassing," he discovered that a trusted cashier had embezzled more than $15,000 in cash. There was no chance of restitution.

"I have to be candid," Bender says. "Business has been good, and we have been expanding [the company last year did $15 million in sales at five locations]. And we didn't tighten our operations as we should have. We had inadequate audit controls."

Bender has improved his accounting procedures. He also is stepping up preemployment screening. He has been comparing different versions of pencil-and-paper psychological "honesty" tests in preparation for buying one.

Written honesty tests are now being used by more than 5,000 companies nationwide. Such tests have gained acceptance as the cost of employee theft has risen and as polygraphs, or lie detectors, have become more controversial. (Twenty-six states now ban or limit polygraph use and Congress is considering a federal ban. Business opposes any restrictions on employers' rights to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"I'M AN EASY GUY TO SATISFY. I ONLY WANT THE BEST."

David R. Wilson, national head of information security services for Ernst & Whinney, Cleveland, says a business should divide access to assets from access to accounting records.

Such a system would "not allow a thief to take things away and then change the record so the theft couldn't be seen."

PHOTO: BRUCE ZAKE

use screening and investigatory techniques they feel are needed.)

The three biggest test publishers are Reid Psychological Systems of Chicago; Stanton Corporation of Charlotte, N.C.; and London House of Park Ridge, Ill. London House publishes a wide range of tests to measure aptitudes, skills and personality; the others concentrate on tests to predict whether a potential employee will be inclined to steal or will be accident prone through drug or alcohol abuse.

The typical honesty test costs from $6 to $15 per person depending on how much service the client gets. Scoring can be done by the publisher over the telephone or a company can do the scoring itself.

James Walls, senior vice president of Stanton, says that the retail industry "is our No. 1 market. Theft loss is becoming more and more important there because of the increasing competitiveness in the marketplace."

Stanton's main product is its pre-employment honesty test. The company also sells a test to predict how "ready, willing and able" applicants will be if hired, and it offers a test to determine attitudes of current employees toward supervisors, the job and the company. If used properly, Walls says, it can also gauge the amount of time theft (see "Stealing Time," page 23) and pinpoint a potential or actual thief.

Ryan A. Kuhn, president of Reid Systems, the oldest of the testing companies, tells a story about the perils of ignoring test results.

A large corporation ordered pre-employment screening for several of its divisions, one of which was a retail jewelry chain. Sometime later, the jewelry chain suffered within one month the loss of uncut jewels worth $750,000.

Investigators found the two thieves and retrieved most of the loot. The culprits turned out to be two recently hired entry-level employees, both of whom had failed the honesty test but had been hired anyway—one on the orders of the personnel director, who didn't believe in the tests, and the other on orders of the vice president of operations, who was acquainted with the applicant's mother.

In the management shake-up that followed, both executives lost their jobs.

Psychologist William Terris, who is executive vice president of London House, the largest of the testing firms, says it is sometimes charged that honesty tests eliminate everyone except robots—"people who won't steal, but who won't do anything else either." But Terris says persons who fail honesty tests tend to be less committed to employers and to society and more likely to have poor work habits, such as tardiness.

Workers are amazingly candid about their own stealing when questioned anonymously. The University of Minnesota sociology department discovered that while carrying out a three-year study with a $250,000 grant from the Justice Department's National Institute of Justice. About one third of all employees in three industries—retail, hospitals and manufacturing—reported they had been involved in stealing company property during the preceding year.

More than 9,000 employees in 16 department store chains, 21 hospitals and 10 electronics manufacturers answered the anonymous questionnaires.

Retail workers reported they abused their company discount privileges, stole merchandise and took money. In hospitals, workers said they took supplies and equipment and got paid for more hours than they worked. In manufacturing, employee thefts ranged from stealing tools, equipment and materials to being reimbursed too much money for business expenses.

Workers said the fear of getting caught was the single greatest deterrent to theft, and companies with the highest rate of apprehension for theft had the lowest theft rates.

The study also found that "those employees who felt that their employers were genuinely concerned with the workers' best interests reported the least theft and deviance." By contrast, when employees felt exploited by the company or their supervisors, they were most likely to commit hostile acts against the organization.

Hostility to his employer was the apparent motivation of the head bookkeeper who stole $45,000 in six months from an office equipment company in Winter Park, Fla.

Jacquelyn Hoefer, an accountant who investigated the case, says: "The bookkeeper had a personality conflict with the owner, who was absent most of the time managing another company. I think he wanted revenge. He wanted to show up the owner.

"The bookeeper was a man in his late 30s, making pretty good wages. As head of the bookkeeping department, he was the person who reconciled the bank statements. About six months before he was caught, he started forging signatures to checks, and, as the reconciler, he could cover his tracks.

"I think he went into it as a kind of game, just to see what he could get away with," Hoefer says. "He spent the money on home improvements, clothing, a trip to Europe. That's how he was caught. While he was in Europe, the office manager saw a forged check and said, 'Hey, I didn't sign that!' I think he wanted to get caught. He had begun to be more and more obvious until he had to be caught."

Hoefer says the case illustrates a classic situation for theft—giving an employee too much opportunity to steal

and too little supervision. She adds: "We tell absentee owners to get involved, review your monthly statements, have a budget and make sure you have different people doing different things: one to handle the cash, one to authorize payments, another to do the bank reconciling."

The same principles of theft control apply to large companies, says David R. Wilson, national director of information security services for Ernst & Whinney, the national accounting firm.

An effective organization, Wilson says, will divide responsibilities so that "no person acting by himself can circumvent the system," and it will "segregate access to assets from access to accounting records."

To control theft, Wilson says, "management has to look at its internal controls and ask itself: 'Is there any way that one person could manipulate both the assets and the accounting records?' In other words, would the system allow a thief to take things away and then change the record so the theft couldn't be seen?'"

The most pervasive theft problems are probably found in retail operations. The degree varies with the type of store and type of merchandise. Jack Fraser, vice president of operations of the National Retail Merchants Association, three quarters of whose members are smaller, independent stores, says shrinkage—shortage in inventory—has been steadily increasing from an average 1.65 percent of sales in 1983 to 1.98 percent last year.

He estimates that employee theft accounts for 42 percent of the loss.

The National Mass Retailing Institute, representing 750 large retailers, commissions an annual study by Arthur Young & Company of security and loss prevention in the industry. The latest survey shows shrinkage at 1.6 percent of sales in specialty stores, 2.2 percent in department stores and 1 percent in grocery supermarkets, with employee theft the largest component. In all cases, the most common location for retail theft is the point of sale.

The Arthur Young report says security and loss prevention efforts "can't be expected to yield good results under anything but truly committed management; it resists being reduced to bureaucratic routine and tends to deteriorate suprisingly without a . . . hands-on approach."

Machroyce Corbitt is a good example

William Terris, executive vice president of London House, Park Ridge, Ill., the nation's largest honesty-testing company, watches employees score tests of job applicants by phone. Clients get results in minutes to help them make hiring decisions.

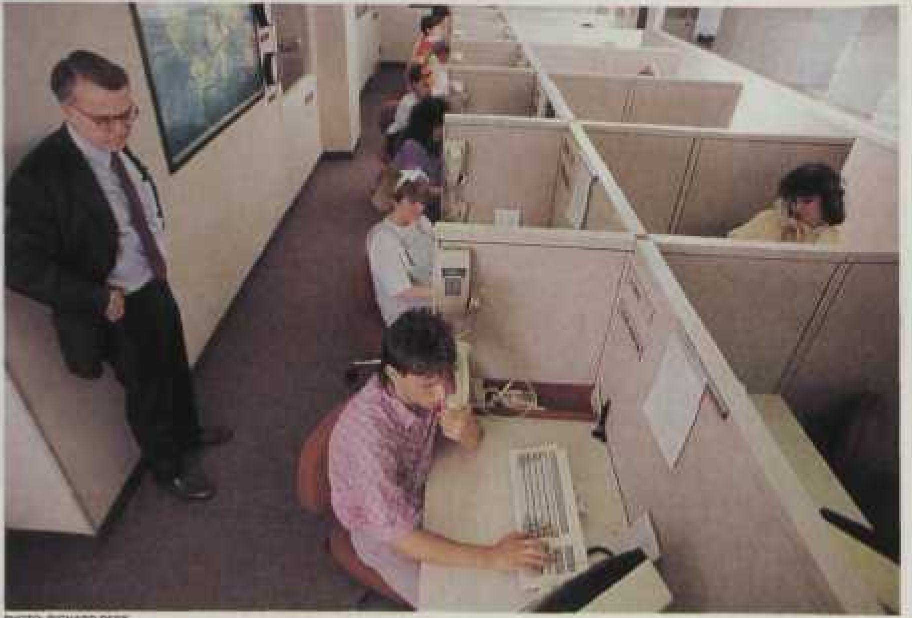


PHOTO: RICHARD DERK

of hands-on loss prevention. He is president of a small janitorial and painting company that bears his name in Dothan, Ala. With eight employees, he has just one client, a company that manufactures surgical gloves in Dothan. His employees are on duty at the plant 24 hours a day.

"So far, I've been blessed," Corbitt says. "I've had very little theft. Maybe that's because I have pretty good relations with my people, and they check things out for me."

When a youthful employee took a company chain saw home, Corbitt kept asking around until he found out who did it. Then he talked to the young man's father, who made his son return the saw. The thief left for another job, and Corbitt heard later he had stolen another chain saw there.

Another case involved imported cigarettes that kept disappearing from the desk of the plant manager. Corbitt checked until he had tracked down the culprit, and he set a trap.

"It had to be one guy," he says, "because he was the only one with a master key. We set him up. We left the cigarettes out but counted them first to be sure, and he did it again. I had to let him go."

Robert Wilson has a larger operation, but constant checking is his way, too. His General Motors dealership in Malvern, Ark., had sales of $7 million last year. Wilson says theft has not been a major concern, for two reasons. One is that he has had the same employees for a long time and the other is that "I'm everywhere—the shop, the sales floor, the parts department. I don't manage just by sitting here."

For example, he says, "I do random sampling of parts invoices, then I make a clerk pull the repair tickets and I look to see whether the part on that invoice is on a repair order or whether it went into inventory. I do that at the end of every month." Wilson's system led him to fire his parts manager several years ago. He says: "I couldn't prove anything, but parts were missing, and he didn't argue when I confronted him."

Five Steps To Reduce Theft

Companies that earn their employees' respect are the least likely to be victimized by internal theft, says a study commissioned by the National Institute of Justice.

Besides good employee relations, there are five steps to reducing theft, says the study, conducted by the sociology department of the University of Minnesota with the assistance of the American Management Association.

- Adopt a clear policy on employee theft. Companies cannot rely on "the adequacy or appropriateness of prohibitions regarding theft in the general society," the study says, but must broadcast the message that theft is not acceptable behavior.
- Communicate the policy continually to the work force. "The typical 15 minutes during new employee orientation is not adequate." Let workers know the company cares about both its property and its employees.
- Enforce the policy at all levels. False threats do more harm than silence. "If higher status employees get different treatment, this will greatly erode the fairness necessary to deter theft." When sanctions are enforced, let other workers know it, without using names of offenders.
- Use control systems that monitor transactions against norms, that analyze inventory flow and don't just replace expended items. Let employees know the system is working.
- Evaluate applicants' job histories during pre-employment screening for signs of strong allegiance to their employers. Check references. Assess propensities for future theft.

The study was conducted by Richard C. Hollinger of the University of Florida and John P. Clark of the University of Minnesota. In their report, published by Lexington Books of Lexington, Mass., and Toronto, they say: "Our research suggests that social controls, not physical controls, are in the long run the best deterrents to theft and deviance in the organization."

They add that "the best single predictor of involvement in theft and production deviance is the employee's perceived chance of being detected."

The report concludes: "Theft is in large part a reflection of how management at all levels of the organization is perceived by the employee. Specifically, if the employee is permitted easily to conclude that his or her contribution to the workplace is not appreciated or that the organization does not seem to care about the theft of its property, we expect to find greater involvement.

"A lowered prevalence of employee theft may be one valuable consequence of a management team that is responsive to the current perceptions, attitudes and needs of its work force."

He also keeps a sharp eye on his used car operation. "In used cars, it can be real easy to drag money right off the top," he says. "For example, a wholesaler comes in and agrees to pay $5,200 for a car and the salesman comes to me and asks if I'll take $5,000. Then the salesman gets his $200 down at the corner."

An employee incentive program is the latest theft-control measure put in by Richman-Gordman Stores of Omaha, which operates 26 department and discount stores in five Midwest states. The incentive is a bonus based on each store's success in meeting shortage-reduction goals.

"We simply share the company's savings with the employees," explains Ben Guffey, the chain's director of loss prevention.

Richman-Gordman gives honesty tests to job applicants and maintains investigators, auditors, store detectives and observation booths. Each store has a shortage-control committee and a shortage-control bulletin board and gives regular shortage-control training to managers and employees.

Guffey says computerized reports compare expenses in various categories with the year before, to show any patterns of irregularity. He says most thefts by clerks are at the point of sale and involve under-ringing, passing merchandise without charging and fraudulent voiding of charges. The most common white-collar theft, he says, is padding travel expense reports.

Guffey offers this advice to small business owners about controlling theft: "The majority of people are honest. The main thing you have to do is create a climate of fairness and honesty. Send your people a clear message that while temptation is normal, honesty is normal, too, and the normal person won't steal."

Honesty in business has to start at the top, says Thomas R. Horton, president and CEO of the American Management Association: "Progress in a company's fight against crime can begin only when managers at all levels regard themselves as ethical role models—avoiding conflicts of interest, clarifying the kind of business conduct expected by the company and taking seriously the fact that we must be like Caesar's wife—beyond suspicion." NB

To order reprints of this article, see page 38.

Stealing Time: The Subtlest Theft

The least recognized—but perhaps most costly—form of employee theft is the theft of time, some experts insist.

"Employees who willfully waste or squander their paid working hours are just as guilty of stealing from their companies as they would be if they took money or materials," says Robert Half, president of Robert Half International, a New York-based recruiting firm with 100 offices on three continents.

Based on his firm's annual "time theft" survey, Half estimates that U.S. employees stole $170 billion worth of their employers' time last year.

The Half company has been surveying presidents, vice presidents and personnel directors in more than 300 large and medium-sized companies since 1970.

Their responses, Half says, indicate the average time thief steals six workweeks per year. He says the major forms of time theft are late arrival or early departure, feigning illness and claiming unwarranted "sick" days, using the company's time and premises to operate another business, taking inordinately long lunch hours and coffee breaks, constant socializing with other employees, excessive personal telephone calls and creating the need for overtime by slowing down during normal hours.

Half says that while every employee is entitled to take some work breaks, to attend to some personal matter or even to "goof off" sometimes, "the great damage is done by those who steal time calculatingly and consistently."

Most of the executives surveyed said that permanent employees steal more time than temporary personnel. They also said they believe government employees steal more time than workers in the private sector.

A majority of the executives said that the longer people have worked for a company, the more time they are likely to steal.

They said that office workers steal more time than manufacturing employees and young people (under 30) steal more than older workers, but there is no significant difference between men and women.

The estimates of weekly per-employee time theft within individual companies ranged from as low as 10 minutes to as high as 22 hours. The average was 4½ hours a week or six workweeks a year.

Half used Bureau of Labor Statistics employment and earnings data to arrive at his calculation that time theft costs $170 billion a year.

Andrew Sherwood, chairman of Goodrich & Sherwood, the nation's largest full-service human resources management consulting firm, based in New York, agrees that the importance of time loss is underappreciated.

"Ask someone to name the most significant crime against business," Sherwood says, "and the person will probably say it is theft of materials or embezzlement.

"But that would be dead wrong. The major crime is stolen time—the time employees waste every year."

Sherwood says that to attack the problem of time theft, employers must set the pace, insist on high performance and reward employees accordingly.

He advises employers to follow these six steps:

- Set an example, and act as a role model. Show people that their boss is the hardest worker in the company.
- Establish clear, feasible rules, and enforce them with everyone.
- Monitor activity by carefully observing employees 15 minutes after starting time and before quitting time, coffee breaks and lunch.
- Communicate with employees about what they should be doing, how they should proceed and when their deadlines will be. Often employees waste time because they aren't clear on their priorities.
- Spotlight top performers for special recognition to demonstrate that good work and loyal service are appreciated.
- Involve employees in the operations of the company. Help them recognize how they can contribute to the company's success and what it potentially means to them in promotions and income.

Sherwood says employers should project this message:

"If you are stealing by wasting time, correct your time-theft habits. Give your company a full day's work for a full day's pay. . . . This is also one of the best ways to enhance your career.

"Time is one of a company's valuable assets, and stealing it can threaten the very existence of the company and your job."

MANAGING YOUR BUSINESS

When Customers Don't Pay

The most important measure of how a company is doing is cash flow. Without cash, you have lost your ability to compete.

By Les Kirschbaum

If someone asked you how your business was doing and you said "good," your response might be inaccurate if you based it only on the traditional measures of a successful business—sales, profits and growth.

Your company could be highly profitable and enjoying robust sales growth, but it still could be headed for trouble if it had severe cash flow problems.

All too often, there is no visible relationship between sales and the cash needed to keep a business healthy. A company can sell, sell, sell, but how good is the return if too many of those sales dollars remain uncollected?

A start-up computer company "grew" rapidly over a short period, registering sales as quickly as the product could be made. But the firm devoted little attention to its cash receivables. More and more corporate funds went into manufacturing expansion and the sales effort. Additional product was sold but, in turn, more money was left uncollected. Result: A seemingly successful company went bankrupt.

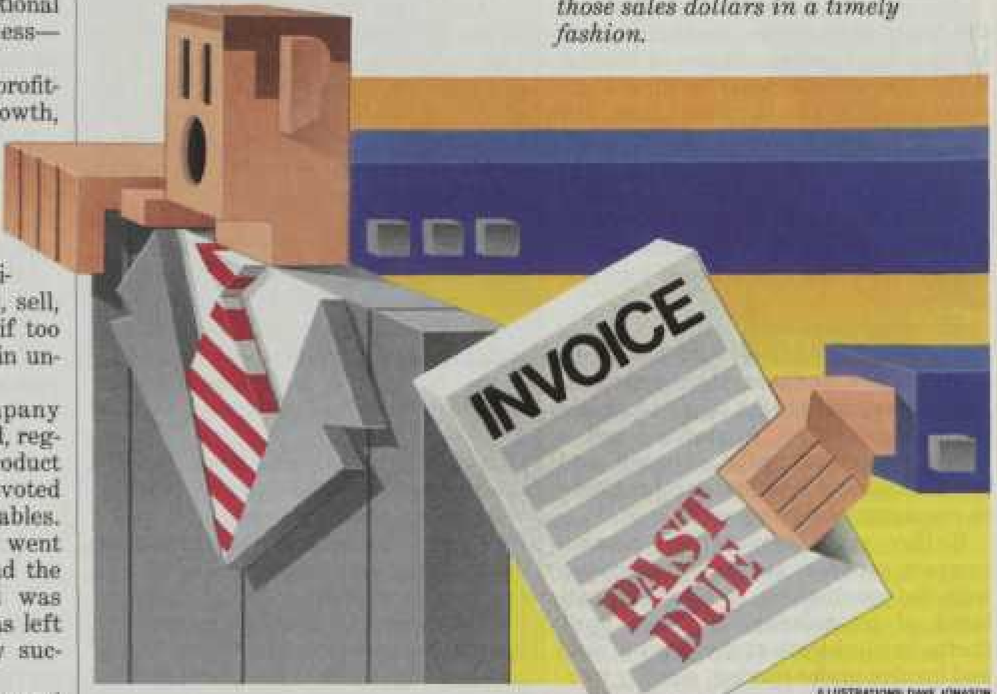
Companies that accumulate cash and provide for adequate liquidity have the best chances of survival. Companies that ignore the reality of cash and fail to create sufficient reserves are in for difficult times.

Where should you begin? First, remember the basic rules of cash flow management: Collect accounts receivable as quickly as possible. Pay accounts payable at a pace that retains cash as long as possible without hurting your credit rating.

For example, a company doesn't have to wait until after it has shipped its product to send the invoice. Let's assume your invoice date is April 14—even though the customer may not receive the goods until the 16th or the 17th—and your terms are net 30 days. The customer's accounts payable department will use the April 14 invoice date in scheduling payment. Even if the customer pays suppliers on a 45-day cycle, you are already at least three days closer to your billing terms.

Les Kirschbaum is the president of Mid-Continent Agencies, Inc., in Glenview, Ill.

No matter how effective your sales team is, your company's health is only as good as its ability to collect those sales dollars in a timely fashion.



ILLUSTRATIONS: DAVE JONASON

Or, let's assume that a distributor can get 60-day terms from his supplier but can sell the goods on a net 30-day basis and collect quickly. The distributor may actually receive payment from his customers *before* making payment to the supplier. In effect, the distributor can do business with someone else's cash. You can't play the cash flow game any better.

What does all this mean to you? One large corporation systematically pushed its payables from an average of 30 days all the way to 45 days. At the same time, it started monitoring receivables more closely. Through tighter collection controls, the company's DSO (Day Sales Outstanding) dropped from 58.2 to 40.1 days. The increased cash flow this procedure generated was tremendous. And, by intelligently investing the "new found money," profits of $80 million were realized very quickly.

To be a constant winner with a cash flow strategy, a company must devise a specific policy for management of accounts receivable. The policy should include a sound credit procedure clearly understood by customers; an up-to-date and complete credit file and system for establishing a line of credit; a sound follow-up system for slow-paying accounts; and development of outside resources to help with seriously delinquent accounts.

The highest priority in the management of accounts receivable should be given to investigating a potential customer. To obtain the necessary information, you must develop and use a detailed credit application.

It is surprising how many companies do not even have a reasonably effective credit application and therefore have very little information about the credit standing of their customers. There are many standard application forms that can be adapted to fit your company's needs. You can obtain these forms from credit associations and interchange groups, or even from some of your suppliers.

Once you have accepted the application, started a credit file and begun to monitor your customers, an individual line of credit for each new customer must be developed. Some suppliers assign an automatic line of credit to new

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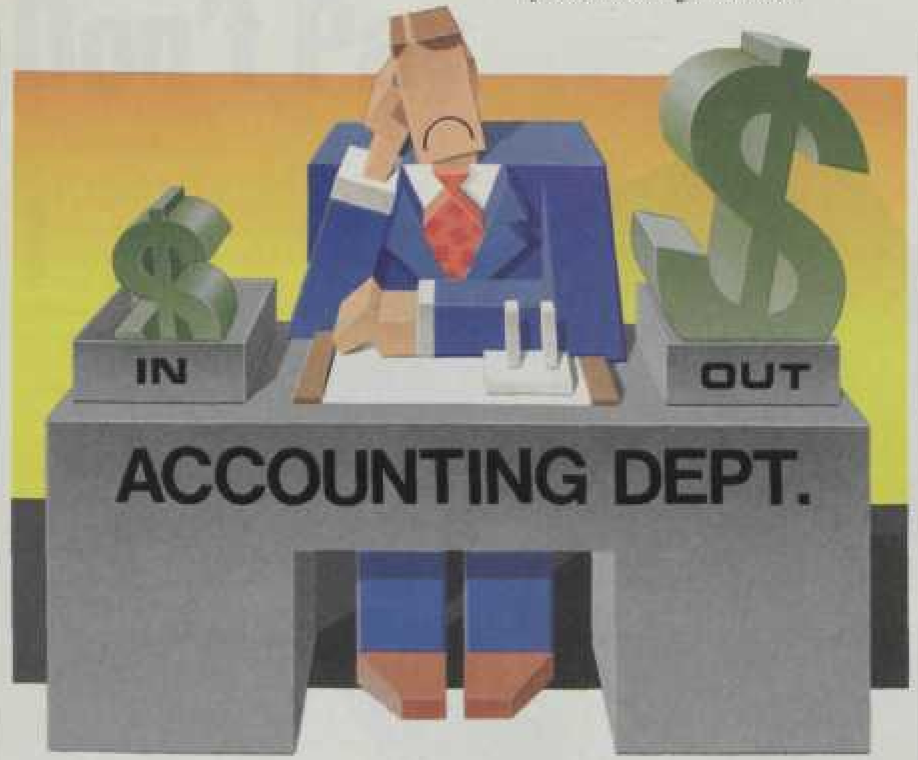
When Customers Don't Pay

Keeping your company in the black calls for balanced cash management: prompt collection of accounts receivable and paced payment of outstanding invoices.



customers. But credit lines should not be given out indiscriminately, and, once authorized, they must be continually scrutinized, with your predetermined company policy kept firmly in mind.

An amazing number of companies run into problems because they approve an order for a small amount initially and, within four or five months, find that the customer has obtained thousands of dollars' worth of goods for which it is unable to pay.

You should also develop an internal collection system that effectively monitors slow-paying accounts. Since many companies have developed sophisticated procedures to stretch out their payables and, in effect, generate loans from their suppliers, you as a supplier must respond by establishing a clear-cut collection policy.

You should begin by *clearly establishing your terms.* The best time to do this is immediately after receiving the first order from a new customer. Consider calling the customer 10 to 15 days before the due date of the first invoice to express appreciation for the business. In addition, you might also want to ask questions like these:

- "Were there any problems?"
- "Was the order received in good condition?"
- "Was the invoice received?"
- "By the way, did you know payment is due by [date]? We expect prompt payment."

Establishing very clear credit terms right at the beginning is extremely important with new customers. Once bad habits develop, they are difficult to change.

Next, you should *concentrate your in-house collection efforts between 31 and 60 days.* This is the critical time when your cash flow maintains momentum or breaks down. Most people in this category are not ultimately collection problems—merely "slow payers." By concentrating your collection efforts here, through letters and by phone, you can accelerate the payment process and enhance positive cash flow.

If your terms are net 30, make your first call on day 31, and arrange a definite payment schedule. Be persistent and provide close follow-up. You don't have to be heavy-handed to the point of losing business, but you should be firm in clarifying your goal of being promptly paid when accounts are due.

By contacting your customers quickly, even when they are a day or two past due, you are making it clear that you expect the terms of your agreement to be kept. Many customers simply do not have enough cash to pay all of their suppliers on time. They must choose whom they will pay promptly and whom they will pay in 60 days or 90 days. By shortening your collection schedule and by using statements, follow-up letters and phone calls on a consistent basis, your customer will learn that your company takes its accounts receivable seriously.

At 60-90 days, it's time to make some firm decisions. If you decide to retain a late-paying company as a customer, there are several avenues you can explore. A few examples are:

- Restrict credit until all past-due invoices are paid.
- Use a C.O.D.-plus system, by which you simply merchandise on a C.O.D. basis with an extra amount to be asked from the old account.
- Use a partial payment plan either on its own or in connection with holding orders and sending orders C.O.D.
- Obtain a note along with a personal guarantee from one of the officers of the corporation.
- Impose finance charges (this should be carefully discussed with your corporate attorney or accounting department, since laws vary from state to state).

At over 90 days, seek commercial collection involvement. This is where outside collection intervention by a third party could come into play. By using a collection source as an extension of your company, your staff is free to bring in the cash during the earlier critical times.

The choice of a collection agency should be made carefully, like any other sound management decision. Some questions to ask about a potential agency:

- How long has it been in business?
- Is it bonded and licensed?
- Is it a member of the Commercial Agency Section of the Commercial Law League of America?
- Can the agency supply a list of references in your particular industry and your geographic area?

You will find that most commercial collection agencies offer competitive rate structures. You can expect a return on collectible debts of between 75 percent and 80 percent of your dollar—which industry figures show is 80 percent more than is obtained by allowing a customer to go without payment.

Cash flow management has evolved in the past decade into one of the most important functions in the business environment. Executives who devote ongoing attention to cash flow and accounts receivable will significantly enhance the chance to build and strengthen their companies' financial positions. NB

To order reprints of this article, see page 38.

MANAGING YOUR BUSINESS

Converting To A Franchise

By Ripley Hotch

Conversion franchising appeals to franchisors who want to expand, like Gary Blumenthal (top) of Tinder Box International, and to franchisees who want to be more competitive, like Moto Photo's Sid Davidowitz.

Sid Davidowitz had been running his family's camera store for 10 years when he decided to expand by building a one-hour photo processing lab, Expresslabs, Inc., in Paramus, N.J.

"I thought it would be a piece of cake," says Davidowitz. "I had the background. But it turned out to be a steep learning curve." The store took six months to open, and then months more passed before Davidowitz would advertise; he was afraid the service was not good enough. "I made every mistake possible because I was depending on vendors for support, information and even training. But that's not their function."

After a year of operation, "I met the people at Moto Photo, and I saw the light," Davidowitz says. Moto Photo is a franchised chain of one-hour photo processing stores that also offer some videotaping services and related merchandise. The company was interested in conversions—making franchisees of existing independent lab operators like Davidowitz.

"I felt it was a vehicle that would allow me to expand more rapidly than I could have on my own," he says. It worked: "I started to follow their advice on design and marketing, and my sales went up rapidly—and not just a few percent a month."

Davidowitz sees a long, productive relationship. "I pay my royalties on time and am happy to do it, because I constantly see new ideas and methods I could not come up with on my own." Besides owning his own Moto Photo store, he has become the area representative for the franchisor, selling franchises to others.

Conversion franchising can be an attractive prospect for the franchisor as well. Moto Photo likes the idea, says Michael Adler, president of the Dayton-based company, because it is easier to make an existing store profitable than to open a new one.

Says Adler: "Our theory is that you've gone through the start-up agony, and we pick up a store that should be in full swing. Starting from scratch, it takes two years to get to that level. Converting is a fraction of the work."

The fee structure reflects Moto Photo's philosophy. The regular franchise fee is $35,000 for the first store and $20,000 for each additional one. The conversion fee, however, is only $7,500. The strategy has contributed to the growth of Moto Photo from 21 stores in 1982 to 212 in early 1987; Adler says the company plans to add 75 more stores in 1987, and eventually reach 1,300 by the early 1990s.

Franchisors and potential franchisees are increasingly seeing an opportunity in conversion franchising. It can allow the franchisor to grow quickly and the franchisee to compete with other chains that may be claiming market share in an industry. An alert entrepreneur can use conversion franchising to organize a fragmented industry dominated by mom-and-pop stores.

The father of conversion franchising was Art Bartlett, a Southern California real estate broker who founded Centu-

As competition intensifies, independent business people are getting a jump on the market by joining a franchise.

ry 21 in 1972 and sold it five years later to Transworld Corporation for $93 million. Century 21, now the largest real estate company in the United States, was built entirely by conversion.

"Bartlett was selling a name and national recognition," says Les Rager, of Rager, Hardage & Company, a Roswell, Ga., franchise consultant. "It was an immediate help to little guys who were butting heads with big guys in their market. All of a sudden a little guy, just on the strength of the Century 21 name, got more listings."

Rager, who has advised several companies on conversion franchising, says the candidate industry "has a significant number of small, independent mom and pops that also have large competitors in their marketplace."

One rather surprising example is Service America, a Fort Myers, Fla., franchisor of air conditioning and heating dealerships.

Air conditioning dealers have traditionally worked as subcontractors to large developers, but Ron Smith, founder and chairman of Service America, emphasized service in his own company, Modern Air Conditioning of Fort Myers. He began to concentrate less on selling hardware installations and instead tried to get service contracts from residential customers. "Interestingly enough," Smith says, "the heating and air conditioning industry is by far the largest home servicing industry in the country."

His success in changing from sales to service attracted a lot of attention from other contractors. After a period of consulting, Smith became convinced that leading seminars and offering advice was only a quick fix and not the most effective way to change how the industry marketed itself.

Service America began selling conversion franchises in March, 1985. It now has 36 locations and plans to have 670 by the end of 1990.

What makes the heating and air conditioning business good for conversion franchising, according to Smith, is that the franchisees already know the technology. What they don't know is business methods, particularly marketing. "We're becoming a kind of clearinghouse for franchisees' ideas," Smith says. "We are clearly in the business of sharing information."

Franchisee Mike Carl, of Baton Rouge, La., joined the Service America system about 15 months ago, because he felt his own business had reached a plateau. He also was concerned by the economic downturn in Louisiana brought about by the depression in the oil industry.

The franchisor helped Carl start selling service contracts, using techniques new to Carl: goal-setting and a clear marketing plan. "As small business people, we're not so good at setting goals and meeting them," says Carl. "We end up fighting fires instead."

With the guidance and counseling of the franchisor, he says, "we set a goal of how many service contracts we wanted to sell per month. We monitor that daily and compare [the number of contracts] to the goal. We have incentives for each sale and to reach the goal."

Result? "In 13 months we've more than doubled the number of our service agreements." Better yet, says Carl, "We have been able to hold our own while other heating and air conditioning businesses have reduced sales or closed."

Carl is the kind of franchisee Smith wants. Smith is so committed to conversion franchising in his industry that he will not sell a start-up franchise. "In this program, they need some sort of a customer base to get started with, and they have to be properly licensed, which is a problem for a start-up operation."

The major issue for new franchisees

at the moment is the loss of their own company names. "I think it's a mistake to tell these people to do away with their names," says Smith, because a conversion franchisee brings to the franchisor a customer base that knows the business by its local name. Service America has reached a compromise: The franchisee uses its own name but displays a Service America logo at least half as large as its local one.

In time, says Smith, "what we would hope is that Service America might look like Century 21, so that its name will be stronger than the local one."

A similar method is being used by Amlings Flowers & Gifts, an 85-year-old Chicago florist that is just beginning to franchise. Paul Wentland, CEO and president, is trying to convert florists by letting them add the Amlings name—which is very strong in the Midwest—to their own. Because the franchisor is starting out in its home territory, the Amlings name gets larger billing than the original name. That familiarity is more of a plus than for a new name like Service America.

Wentland has signed up two franchisees since Amlings was approved to sell franchises in March. "We feel this would be a natural for other florists," says Wentland. The conversion franchise fee is $13,500, but $25,000 for a new florist. Conversion franchisees could use most of the equipment they now have, and are, of course, technically skilled in the field. What Amlings provides is a toll-free order number and some trademarked arrangements that, Wentland says, will give Amlings' florists something different from FTD.

"If you send some flowers to a hospital, you are likely to see eight other arrangements that look the same because they were sent by FTD," says Wentland. "Although it's possible that everyone in that hospital could be using Amlings, it would probably be one franchisee, who will know duplicate arrangements should not be sent to the same person."

To his surprise, however, Wentland is not finding as many conversions as he expected. "We have started to lean toward the new ones," he says. "We're just not sure we can change habits of existing florists."

Wentland's concern reflects the major drawback to conversion franchising. Some franchisors simply will not consider conversions, in large part because of the independent business person's ego problem.

"I'm not sure conversion franchising wouldn't work, but I've had poor luck with it," says Anthony A. Martino, founder and president of MAACO, the 445-unit auto painting company based in King of Prussia, Pa. As the founder of AAMCO Transmissions as well as MAACO, Martino has had considerable experience in the automotive aftermarket.

He says the character of the independent business person in his industry almost precludes success in conversion

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franchising. "Independents in this business are entrepreneurial and somewhat unsophisticated about marketing," Martino says. "They have a difficult time understanding why they should pay you for what they already do." Furthermore, they often are not team players, and, he says, "To be a franchisee you have to be a team player."

Because of those factors, Martino would rather sell MAACO franchises to people who have had management experience—middle managers in large corporations, for example.

Organizing technically oriented business people may take place best in a far less organized industry than the automotive aftermarket, where franchisors are already in control of huge segments of the market. Such is the case with Service America and with another small franchisor, Add-Ventures of Medfield, Mass.

Add-Ventures is bringing together small contractors to specialize in home remodeling and room additions. Like Service America's Smith, Tom Sullivan, the 28-year-old president of Add-Ventures, began as a business owner himself. He believed that there was room to introduce business methods and marketing to contractors, but he was well aware of the independence of the small contractor.

"A lot of contractors are very independent; they don't want to listen to anyone," says Sullivan. "We can tell from the start the people who want to make their businesses grow. They're the ones that we'll take on."

Add-Ventures looks for regional franchisees with going businesses, who can then sell 10-20 local subfranchises. Because regional franchisees have successful businesses, they have cash flow and can afford to be selective about selling franchises.

The company is also looking for contractors in smaller areas. The strategy means slow growth—there are 10 franchises now, and Sullivan expects to have 36 within the year—but he prefers that. "I'd rather sell one good franchise than 50 bad ones," he says. "Carpenters don't want to be associated with lousy work."

Like Service America, Add-Ventures preserves part of the conversion franchisee's name. Add-Ventures/Kevin D. Thomas Construction is the regional conversion franchisee for Nebraska. Owner Kevin Thomas likes the Add-Ventures approach principally because of its "professional image" and the quality of its advertising. "We had a lot of trouble just putting an ad in the newspaper," says Thomas. He just did not have the know-how.

And he knew that he wanted to broaden his marketing base. "The advertising they're doing through TV, large papers and radio has brought in new business. Our working area before was about 15 miles; now it is about 55." Another benefit has been that Thomas is doing fewer kinds of work, more efficiently.

As an independent, Thomas says, he had doubts about converting, and for some of the reasons MAACO's Martino and Service America's Smith point out. "I felt at first I was restricted because my name was changed," says Thomas. "But the Add-Ventures people have been very understanding. They haven't ordered me around. I feel like I have a helping partner for advice."

Even companies in very large and competitive industries find conversions a useful strategy. Shakey's Pizza, an aggressive smaller pizza chain based in Irving, Tex., is actively seeking conversion units.

Fast food stores—McDonald's chief among them—have been the general public's traditional image of business format franchising. Part of the reason is the uniformity not only of signage but of the buildings. It would seem, therefore, that conversion might require an entirely new building, and as a result be more expensive for the converting franchisee than starting out from scratch.

Not so, says Rodney Read, Shakey's vice president of marketing.

"Most of the sites that are available are in high traffic areas, and the building already exists," he says. "For us to tear down the building and put up a new one would be cost prohibitive. It is more efficient for us to go in and remodel the unit so it carries the same signage and decor package. That way we carry a unified image with relatively minor expense attached."

Shakey's converts independent restaurant owners—usually those that are

not in the pizza business—and charges them a franchise fee of $20,000. Of its 21 new stores in the last year, 15 were existing units that were converted, says Read. None were independent pizza restaurant owners, but "we have plans to actively pursue that segment of the business, and I wouldn't be surprised to see that occur," he says.

Occasionally, Read says, a restaurant owner has strong ideas about how to run the business and may want to take a different direction: "We had one franchisee last year who had a pizza restaurant in a different location and bought a franchise from us. He said he was going to operate differently; we told him we would disenfranchise him, and he could operate independently. He decided to stay with us."

Conversion is an appealing method even to very large companies that want to get into a new market. Such is the case with Bell Canada, which has created a franchising subsidiary called Protocol Message Management Centers, Inc., in Reston, Va.

Protocol began selling telephone answering centers franchises about a year ago. It chose to do so exclusively by conversion, says F.R. "Rod" Jacques, president of Protocol.

Protocol's reason for seeking conversion franchisees is the same as Moto Photo's: to get up and running quickly. "An earlier revenue stream for Protocol has enabled us to grow and service the accounts better," says Jacques.

The telephone answering industry has a poor image, says Jacques, and Protocol is attempting to professionalize it, principally through training programs for owners, managers and telephone answerers. For their $25,000 franchise fee, new Protocol franchisees are trained in business methods and marketing and are given help in choosing technology.

"We are looking for people who want to grow, become more professional and plug into new services in telecommunications as it grows into the next century," says Jacques. "We're getting a lot of those types." He says that he is finding that his new franchisees are nice people who want to help others, but who have built their businesses from scratch without a lot of business training or background. With Protocol's help, "they're finding they have a better feeling about themselves. They are part of a larger entity but still have control of their businesses."

Add-Ventures' Tom Sullivan says he can spot "from the start" the potential conversion franchisees "who want to make their businesses grow."

Protocol has sold 57 franchises and has about 30 in operation. Jacques says the company plans to have between 600 and 1,000 centers open in five years, each serving on average up to 1,000 clients—although one center now has 17,000. "A client level of 600-1,000 provides a very good cash flow—it's like a mini telephone company," says Jacques.

Although a huge company can use conversion to expand into a new kind of business, there is a niche for even a very small franchise with a low investment. Western Vinyl—a vinyl-repair franchise—sells a different kind of conversion; businesses add a franchise as part of an already going business. "More than half of our franchisees have other businesses," says Bill Gabbard, founder and CEO of the Denver-based company.

The reason is that Western Vinyl makes repairs on-site rather than at a company location. "All our owners are white-collar," says Gabbard, "because our system is set up to delegate out to a technical staff and sales crew."

Owners therefore are able to add the Western Vinyl franchise to an auto dealership or even another franchise—one owner is also a franchisee of Wicks 'N' Sticks, a specialty gift store selling candle products and related accessories. One is even a bank president. Gabbard likes that kind of franchisee because he is trying to change the image of vinyl repair. His is the only such service that offers a lifetime guarantee.

Most customers are large accounts—airlines, government agencies, hospitals and restaurants. But unusual customers include owners of hot air balloons and farmers, whose silos have plastic liners that occasionally need repair.

Tinder Box International is using conversion franchising as part of a general repositioning, rather than to start up and grow. It was a traditional tobacco shop, but has now expanded to gifts in order to appeal to nonsmokers and to women. There are 192 stores across the country; about 150 are franchised.

President Gary Blumenthal says that the company is engaged in three types of conversion: selling its company-owned stores to franchisees, converting independent stores to franchises and converting small chains entirely to Tinder Box stores. "One reason we're interested in conversions is the sites," he says. "We're only looking for 20 quality sites and 20 quality people a year. Sometimes we can build and operate from scratch. Other times, we like the people and their sites."

Converting a chain is an unusual proposition, says Blumenthal. Usually the chain is interested in selling the whole company. Tinder Box enters into an arrangement that allows individual stores to be sold as franchises. At the end of a given period, Tinder Box will buy the rest of the stores. "Many times they can get more money franchising the store than we would give them as a buyer," says Blumenthal.

Independents who choose to convert get an entirely new line of business, Blumenthal says. "We're heavily into gifts. The independent tobacconist can't do the buying and the research, but a lot of them want to have the gift line." Conversion gives them the line, but Blumenthal is careful about accepting an independent.

"We're pretty tough on what we want," he says. "There's no scientific way to decide who should be converted. We look for people who are already successful. We're looking for a good merchant, for people who are good with people."

Blumenthal's attitude about conversion is common among franchisors. The key is the potential franchisee: "The person's sense of independence doesn't bother me. I look for flexibility, open-mindedness and enthusiasm. I don't want someone whose first word out of his mouth is why something won't work. If someone doesn't want to change, why is he converting?" NB

Minimum Wage Myths

A coalition of business people strives to educate legislators on the dangers inherent in a federally mandated minimum wage increase.

The public will pay for an increase in the federal minimum wage through higher prices and fewer jobs.

That is overwhelmingly the view of an organization of employers from a cross section of American business. And business legislative strategists are trying to convey that view to Congress as part of a campaign to head off a strong drive to raise the wage floor by nearly 40 percent over three years.

The minimum wage is now $3.35 an hour. Legislation pending in Congress would bring it to $4.65 by 1990 and would provide for automatic increases thereafter by setting the wage at 50 percent of the average nonsupervisory, private-industry wage.

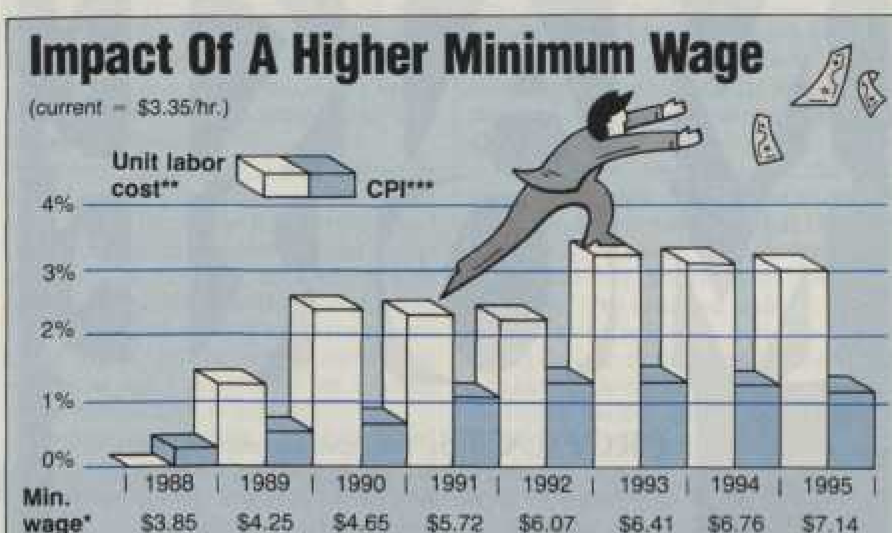
At the recent annual meeting of the U.S. Chamber of Commerce, delegates representing grass-roots businesses predicted massive impact on their companies if the wage-increase-and-escalator plan goes through. Three quarters said they would raise prices, cut their existing work forces, defer new hiring or reduce the number of hours that present employees worked.

Others said they would respond to a mandated increase with such steps as cutting profit margins, reducing services or accelerating labor-saving methods. Fifty-five percent of the employers polled said they would have to raise wages of workers who now earn above the minimum to preserve existing differentials.

The principal congressional sponsors of the minimum wage legislation are Sen. Edward M. Kennedy (D-Mass.), chairman of the Senate Committee on Labor and Human Resources, and Rep. Augustus Hawkins (D-Calif.), chairman of the House Committee on Education and Labor. They argue that inflation has drastically eroded the purchasing power of the $3.35 minimum wage since it took effect in 1981 and that many entry-level workers will be condemned to poverty unless that figure is raised substantially.

Leading the opposition are Sen. Orrin Hatch (R-Utah), senior Republican on Kennedy's committee, and Rep. Steve Bartlett (R-Tex.), a member of Hawkins' committee. They spotlight the impact of a wage increase in terms of higher unemployment and higher prices. They argue that a higher wage would actually hurt the very people that proponents say would be helped.

The effect of a minimum wage increase over five years is dramatic. The chart figures the business costs of proposed increases over the current $3.35 minimum. Dramatically higher costs will be passed on to the consumer in the form of higher prices.



*Projected minimum wage under Kennedy-Hawkins proposal
**Percentage increase in cost of labor for each unit of production
***Percentage increase in Consumer Price Index

Source: Forecasting Section, U.S. Chamber of Commerce

CHART: WARREN [illegible]

At the same time, Hatch and Bartlett say that business people are going to have to become more active in making their views known to Congress if the Kennedy-Hawkins bill is to be stopped.

The congressional push for a substantial increase in the minimum wage is part of an overall campaign by organized labor on several fronts to capitalize on Democratic control of both houses of Congress. The AFL-CIO and other labor organizations played major roles in the 1986 election campaign, where Democrats gained control of the Senate for the first time since President Reagan's first victory in 1980.

While the Democrats retained control of the House throughout the Reagan years, GOP control of the Senate remained a formidable and usually impenetrable obstacle to legislation backed by organized labor and its congressional allies.

Now, says Hatch, "all the labor stuff the unions are trying to put on business is going to be overwhelming." As senior Republican on the Labor Committee, he remains at the head of opposition to labor initiatives he views as detrimental to the economy.

And, in a strong counterattack on the minimum-wage push, Hatch plans to press for a youth minimum wage, which would permit employers to pay younger workers at a rate less than the federal minimum during the summer vacation period. That approach, he says, would encourage employers to hire and train youths they could not afford to hire if required to pay the full minimum.

Meanwhile, the fight over the proposed increase in the current $3.35 wage floor continues. The Minimum Wage Coalition to Save Jobs, the lead business organization fighting the wage increase, is rallying opposition to the bill because of its potentially adverse impact on the economy. A statement from the coalition says:

"A new minimum wage increase will adversely affect employment opportunities for the low-skilled, especially

among our youth. . . . Economic studies show that raising the minimum wage results in massive unemployment and disemployment (which occurs when new jobs are not created because of high labor costs). In other words, the increase hurts the very employees it is intended to help.

"How else can business cope? Raising prices in response to wage increases will only renew the inflation spiral we have finally brought under control. More often, employers are forced to eliminate jobs or reduce employee hours. And the entry-level, low-skilled positions primarily held by young people are the first to go."

Goals of the Washington-based coalition, which represents business and trade associations as well as individual companies, include the closing of "the information gap" on the hidden costs of raising the minimum wage.

"The public does not understand the full economic impact of this increase proposal, which, on the surface, appears well-intentioned," the coalition says.

A key to achieving that understanding, the group adds, is dispelling the myths that surround the wage issue. The coalition makes these comparisons:

Myth: The typical minimum wage earner is a head of a household supporting a family.

Reality: The typical minimum wage employee is young, single, resides at home and works part time.

Myth: Raising the minimum wage is a way to reduce poverty.

Reality: A study by the Congressional Budget Office shows that over 80 percent of minimum wage workers do not fit the profile of the working poor. Seventy percent of minimum wage workers live in a family where at least one other member holds a job.

Myth: Raising the minimum wage has no negative impact on employment.

Reality: The federal Minimum Wage Study Commission reports that each 10 percent increase in the wage results in a loss of 80,000 to 240,000 jobs for teenagers. In addition, some studies indicate that, although the percentage job loss for teenagers is greater, the absolute number of jobs lost by adults is greater. One study for the commission indicates a 10 percent increase in the minimum wage could wipe out 2.7 million jobs for adults.

Myth: A minimum wage increase is essential to welfare reform.

Reality: Only 16 percent of household heads below the poverty income level work at a full-time job year-round. Raising the required wage payment for low-skilled persons decreases the likelihood of alternative employment opportunities for these people, resulting in more pressure on the welfare system, not less. While tax reform has resulted in removing the disincentives that poor people faced in getting jobs (by eliminating taxes for the working poor), minimum wage increases destroy many entry-level jobs.

Myth: Raising the minimum wage will encourage the low-skilled and unemployed to seek jobs.

Reality: Increasing the minimum wage does not guarantee either a job or a wage increase to the least skilled. The

low-skilled are the first to lose their jobs when the minimum wage is raised. Entry-level jobs are not created when labor costs go up. Where are the plentiful gas station attendants and department store clerks of 10 years ago? Their jobs fell victim to the last minimum wage increase.

Myth: Raising the wage floor will affect only those employees currently earning minimum wage.

Reality: An increase in the minimum will "ripple" through the job market and increase wages for skilled and experienced employees earning more than the minimum without corresponding increases in productivity. The Minimum Wage Study Commission reported that wage increases to those already earning more than minimum wage will be more costly to employers than the legislated increase of the minimum wage. The result will be wage-driven inflationary pressure on the economy.

Myth: Businesses can offset higher labor costs through price increases to consumers.

Reality: Some increased labor costs can be offset by higher prices. However, higher prices spark consumer resistance. The result is lessened demand for services, thus fewer workers and firms in service industries. To the extent that higher wages are offset by higher prices, the net result of the minimum wage increase is that employees are back where they started. The only way wages can be increased in real terms is for workers to acquire additional skills through training and education, not for Congress to pass laws that mandate higher wages.

Myth: A rise in the minimum wage has no impact on competitiveness with foreign businesses.

Reality: There are some low-wage manufacturing industries where minimum wage increases will further hurt their abilities to compete. These industries—shoes, textiles, apparel—are already struggling. As these and other industries are forced to raise their basic labor rates, entire wage structures ratchet upward. The effect on international competition is harmful.

Coalition strategists say their initial challenge is to generate as much grassroots support as possible for their plan to show members of Congress the difference between those myths and realities. Their ammunition includes a series of studies and analyses conducted over the past several years.

Some of those studies did not work out as the initiators intended. For example, the Minimum Wage Study Commission cited by the coalition was appointed by President Carter with a mandate to determine, among other things, "the beneficial effects of the minimum wage, including its effect in ameliorating poverty among working citizens."

Commission research, the coalition says, "confirmed the conclusions of all prior empirical evidence—that the minimum wage causes disemployment in teens and has no effect on low-wage incomes." The coalition adds:

"Nevertheless, the commission ignored its own findings and recommended that the level of the minimum wage be raised periodically by indexing it to the average wage paid in the economy

Where To Write

Here is how you can join the effort to defeat congressional proposals for minimum-wage increases:

Contact the Minimum Wage Coalition to Save Jobs, Post Office Box 28261, Washington, D.C., 20038. This organization of business groups will provide information on joining the coalition, developing letter-writing campaigns, mailing information to the memberships of trade, professional and other membership groups, raising funds to support coalition initiatives and on how business people can serve as spokespersons on the minimum-wage issue.

Let your senators and representatives know how the proposed increase in the federal minimum wage would affect your business and the economy of your community and state. The respective addresses are: c/o U.S. Senate, Washington, D.C., 20510, and c/o U.S. House of Representatives, Washington, D.C., 20515.

Register your opposition with members of the two congressional committees considering this legislation. Those committees and their members (listed in order of seniority on their respective panels) are:

Senate Committee on Labor and Human Resources

Sen. Edward M. Kennedy (D-Mass.), chairman
Sen. Claiborne Pell (D-R.I.)
Sen. Howard Metzenbaum (D-Ohio)
Sen. Spark Matsunaga (D-Hawaii)
Sen. Christopher Dodd (D-Conn.)
Sen. Paul Simon (D-Ill.)
Sen. Tom Harkin (D-Iowa)
Sen. Brock Adams (D-Wash.)
Sen. Barbara Mikulski (D-Md.)
Sen. Orrin Hatch (R-Utah)
Sen. Robert T. Stafford (R-Vt.)
Sen. Dan Quayle (R-Ind.)
Sen. Strom Thurmond (R-S.C.)
Sen. Lowell Weicker (R-Conn.)
Sen. Thad Cochran (R-Miss.)
Sen. Gordon Humphrey (R-N.H.)

House Committee on Education and Labor

Rep. Augustus F. Hawkins (D-Calif.), chairman
Rep. William D. Ford (D-Mich.)
Rep. Joseph M. Gaydos (D-Pa.)
Rep. William L. Clay (D-Mo.)
Rep. Mario Biaggi (D-N.Y.)
Rep. Austin J. Murphy (D-Pa.)
Rep. Dale E. Kildee (D-Mich.)
Rep. Pat Williams (D-Mont.)
Rep. Matthew G. Martinez (D-Calif.)
Rep. Major R. Owens (D-N.Y.)
Rep. Charles A. Hayes (D-Ill.)
Rep. Carl Perkins (D-Ky.)
Rep. Thomas C. Sawyer (D-Ohio)
Rep. Stephen J. Solarz (D-N.Y.)
Rep. Bob Wise (D-West Va.)
Rep. Timothy J. Penny (D-Minn.)
Rep. Bill Richardson (D-N.M.)
Rep. Tommy F. Robinson (D-Ark.)
Rep. Peter J. Visclosky (D-Ind.)
Rep. Chester G. Atkins (D-Mass.)
Rep. Jim Jontz (D-Ind.)
Rep. James M. Jeffords (R-Vt.)
Rep. Bill Goodling (R-Penn.)
Rep. E. Thomas Coleman (R-Mo.)
Rep. Thomas E. Petri (R-Wis.)
Rep. Marge Roukema (R-N.J.)
Rep. Steve Gunderson (R-Wis.)
Rep. Steve Bartlett (R-Tex.)
Rep. Tom Tauke (R-Iowa)
Rep. Dick Armey (R-Tex.)
Rep. Harris W. Fawell (R-Ill.)
Rep. Paul B. Henry (R-Mich.)
Rep. Fred Grandy (R-Iowa)
Rep. Cass Ballenger (R-N.C.)

and that the coverage of the minimum wage be extended by eliminating from current law various exempt categories of work. These incongruous recommendations are really not surprising in view of the ideological purposes of the commission."

A hard-hitting minority report asserted: "The evidence against the minimum wage is so overwhelming that the only way the commission's majority was able to recommend that it be retained was to ask us not to base any decisions on facts."

Another insight into the issue is provided by the Economic Policy Division of the U.S. Chamber of Commerce, which has documented the inflationary/unemployment impact of a higher minimum wage (see chart). Graciela Testa-Ortiz, director of the Chamber's Forecasting Section, comments on the figures: "The evidence is incontrovertible. Nevertheless, the myths persist, and every few years legislators propose yet another increase in the minimum wage. In the process, they congratulate themselves for such a clear expression of their superior morality and compassion. Yet, this exercise in easy ethics only leads to greater hardship for all Americans."

Why, then, does the issue keep recurring? Because, says Testa-Ortiz, "some groups do reap benefits from regulations whose overall impacts on the economy are negative."

She cites various studies showing that the existence of a minimum wage allows a higher union wage structure than would otherwise be possible. Testa-Ortiz further cites a study showing that, as a result of one minimum wage increase, 85 percent of members of labor unions were expected to see higher pay, compared with only 44 percent of nonunion workers.

She comments further: "To young, inexperienced workers, minimum wage jobs are an extension of schooling, since those jobs offer them the training and the work experience to move on to higher paying jobs. The minimum wage deprives the youth of America not only of the opportunity to get a job, but also of needed experience and on-the-job training, while it does nothing to alleviate poverty."

Amid mounting evidence that continuing increases in the minimum wage are hurting those they are supposed to benefit, the basic philosophy of the wage floor is being re-examined.

Richard B. Berman, a Dallas business executive and chairman of the minimum wage coalition, says the concept of a minimum wage has become archaic. The policy of a federally mandated wage level was introduced in 1938, he says, to cover Depression-era conditions that no longer exist.

"A better alternative," Berman says, would be to "let free market forces of supply and demand naturally set the wage floor in a given market, taking into account regional differences in cost of living and unemployment." NB

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MANAGING YOUR BUSINESS

Solving The Liability Crisis

Reform of the court system is a prerequisite to affordable liability insurance, say coalition builders who are trying to do just that.

By Bob Gatty

In early March, about 50 sporting goods industry executives traipsed up to Capitol Hill looking for help. They met with representatives, senators, congressional aides—almost anyone who would listen. Their plea: Do something about the product liability insurance crisis.

That plea signaled both the continuing seriousness of the crisis and the continuing efforts of business to find a solution.

Businesses of all kinds, not just manufacturers and sellers of sporting goods, are still unable to find coverage at a reasonable price—or, in many instances, to find coverage at all. As a result, business groups are trying to build coalitions to influence Congress and many state legislatures to consider remedies that will prevent what happened to Bike football helmets.

Former Heisman trophy winner Richard W. Kazmaier, Jr., only last October purchased the Bike Athletic Company and its Athletic Helmet, Inc., the football helmet manufacturing unit, from Colgate/Palmolive. Bike was one of two remaining U.S. football helmet manufacturing companies. In early April, Kazmaier sold Athletic Helmet without its having produced one helmet under his ownership.

The reason: the skyrocketing cost of product liability coverage and unreasonably high levels of exposure to legal judgments of catastrophic proportions.

As a result, says Kazmaier, "being in the business makes no sense. It is not an economic decision that can even be considered."

The best coverage that Kazmaier says he could find—for a business worth about $8 million in annual sales—would cost about $3.5 million with a potential liability to the company of up to $13 million.

"If you did a financial analysis of the companies making helmets, you wouldn't find enough money to settle even one or two of the outstanding claims if the plaintiff prevails," Kazmaier says.

Thus, it may be that only one manufacturer of football helmets will remain—Riddell, a division of MacGregor Sporting Goods.

Obviously, not only football is jeopardized by the insurance crisis.

The liability crisis has hit the medical profession hard. The American Medical Association says 30 percent of all surgeons are limiting the numbers of high risk patients they will accept.

PHOTO: DIANA O. RASCHE—WESTLIGHT

The American Medical Association says one third of the nation's obstetricians have opted to stop delivering children. AMA says 30 percent of all surgeons are limiting the numbers of high risk patients they will accept. In late April, the insurance underwriter for the American Nurses Association stopped providing liability coverage for nurse practitioners.

The J.F. Fredericks Tool Company, Inc., Farmington, Conn., recalls four years of liability insurance premium increases totaling 983 percent. Another four years like those would force it to close, says the company, whose 75 employees produce machined parts for aircraft.

In 1986, 1,300 trucking companies—most of them the operators of only one or two trucks—closed because of either the loss of insurance coverage or skyrocketing premium increases.

The impact of the liability crisis remains pervasive.

Medical equipment that might provide more efficient ways of diagnosing and treating disease is not being developed. Talented men and women decline invitations to serve as corporate directors. Day care centers are not opened. The list seems endless as industry after industry ticks off what is not happening because of the insurance problem. Meanwhile, the cost of coverage adds to the cost of goods and services.

The Cessna Aircraft Company, Wichita, Kans., laid off 1,000 employees last year and no longer produces piston-driven aircraft. Why? The most expensive component of the airplane was liability insurance at $60,000 to $100,000 per unit.

At the heart of the issue is the ever-expanding definition of tort law. "Tort" simply means wrongs subject to civil law. A person claiming to have been wronged can sue for restitution under tort law. Plaintiffs frequently demand—and receive—so-called punitive damages in addition to compensation for actual economic losses they have sustained. Punitive awards are intended to punish the plaintiff for the alleged wrongful conduct beyond the requirement for compensating the defendant.

Traditionally, punitive damages were rarely awarded, on the assumption that if any punishment was called for, it was a matter for the criminal courts to decide. Also, the person whose product or conduct caused an accident or injury was liable only if he or she was found negligent.

In recent years, however, juries have been granting larger damage awards in liability cases, adding substantial punitive damages and putting less emphasis

Solving The Liability Crisis

Richard Kazmaier, Jr., bought Bike Athletic Company and its subsidiary Athletic Helmet last October. In early April, liability concerns forced him to sell Athletic Helmet without producing a single new helmet.

PHOTO: JACK WILLIAMS

on fault and more on a plaintiff's ability to pay. One study of jury verdicts found they had increased an average of 15 percent a year between 1975 and 1985.

The trend toward stiff judgments against plaintiffs perceived as having the most resources in a case stems from the "joint and several liability" doctrine, which allows one of several defendants to be found fully responsible for all damages, regardless of the degree of fault. As a result, critics of that doctrine say, lawyers go searching for a defendant with "deep pockets"—even a defendant with the vaguest possible connection to a case.

For example, Allied-Signal, Inc., was on the wrong end of a $1.2 million jury award to the family of a 51-year-old Michigan truck driver killed when his vehicle went out of control and overturned. The man had been earning $1,366 per month. He left a widow and six dependent children.

The accident was attributed to the failure of the vehicle's power steering cylinder, which had been manufactured by a company with no connection to Allied-Signal. But the company that made the cylinder had gone out of business, and the plaintiffs targeted Allied-Signal as a deep pockets by alleging that the manufacturer of the steering unit had drawn on an Allied-Signal design. Rather than pursue the case further, Allied-Signal settled out of court for a lesser, but still sizable, amount.

"Society is still grabbing for 'deep pockets,'" says William M. McCormick, chairman and chief executive officer of Fireman's Fund Insurance Company. "When the public found out that the door to the vault had swung wide open, insurance companies experienced an exponential rise in legal costs."

The Reagan Administration is committed to reform, says Douglas Riggs, general counsel of the Department of Commerce. "There has been a perversion in legal theories," he says. "Those who have deep pockets pay, irrespective of whether they are negligent or at fault."

That, says Richard Lesher, president of the U.S. Chamber of Commerce, "is fundamentally wrong." Lesher notes that last year delegates at the White House Conference on Small Business listed the liability crisis as one of their "most important problems."

"I get the mail," Lesher said during a recent edition of "It's Your Business," the Chamber's weekly television discussion program, "and I get it by the truckload, and they [small business people] are concerned about having insurance at any price."

For two years, the property casualty insurance industry was in deep trouble, resulting in last year's round of unprecedented rate increases and decisions to stop covering many risks. Insurance companies have come under considerable fire for raising rates to cover losses. Some have accused the industry of manufacturing the crisis in order to cover its own bad investment decisions.

"We don't think there is credible evidence that the liability crisis is a hoax," says U.S. Assistant Attorney General Richard K. Willard. "The insurance industry is the middleman. You can't blame the messenger for the bad news."

The issue, says Sean F. Mooney, senior vice president of the Insurance Information Institute, is not profitability. Raising prices and cutting back on areas insured have restored profitability, he says, but these actions "have not changed the fundamental problems of cost, efficiency and fairness of the tort system. These issues need to be addressed before liability insurance can be made readily available at affordable rates."

The principle of liability insurance is to spread a reasonable risk over a large group. If the court system turns liability into certainty, then there is no risk to insure.

Some progress has been made. In 1986, under the banner of tort reform, 15 states limited joint and several liability. Seventeen states capped pain and suffering awards. This year, the American Tort Reform Association reports that 10 states have enacted some form of reform legislation, and ATRA expects action in from five to 10 more. But these limitations apply only to the courts of the respective states, not to the federal judiciary.

Last year, federal product liability reform legislation cleared the Senate Commerce Committee but went nowhere in the House of Representatives. This year the Senate committee is chaired by an arch opponent of reform, Sen. Ernest F. Hollings (D-S.C.), so proponents have shifted their attention to the House.

Rep. John Dingell (D-Mich.), chairman of the House Energy and Commerce Committee, has pledged to support product liability legislation that would re-establish more traditional interpretations of tort law. Although it is more modest than legislation sought by the business community last year, the bill would go a long way toward easing the courtroom crisis, says Michael W. Naylor, director of legislative and regulatory affairs at Allied-Signal.

Introduced by Rep. Bill Richardson (D-N.M.), a member of Dingell's committee, the bill would:

- Establish fault as a criterion for liability.
- Dilute the deep pocket theory of joint and several liability, providing that manufacturers would have to pay only their proportionate share of pain-

and-suffering and punitive damage awards.

- Toughen standards for punitive damages, requiring that they be awarded only when a conscious disregard for safety is involved.
- Establish a limit on suits of 25 years after a product is sold.
- Prohibit people who were drinking or on drugs when injured from collecting damages for the injuries.

Among the missing provisions are two controversial components of last year's legislation that sparked white-hot opposition from trial lawyers and consumer groups. They would have placed ceilings on pain and suffering awards and limited attorneys' contingency fees.

Dingell cautions proponents not to try to broaden the scope of the Richardson measure. "The bill must be possible to enact," he says. "It must be workable and simple. There must be a consensus with other groups in support of the bill."

Adds Richardson, "This is a modest bill, but it has the potential for passage."

Meanwhile, two of the most ardent backers of reform, Sen. Robert Kasten (R-Wis.) and Sen. John C. Danforth (R-Mo.), ranking minority member of the Senate Commerce Committee, have each introduced bills in the Senate.

"We are about to turn this issue," Kasten predicts, "if we can continue to change the political atmosphere. We've got grass-roots groups coming from all different parts of society."

Kasten notes that the American Bar Association recently modified its previous all-out opposition to tort reform. The ABA voted to oppose limits on damage awards for pain and suffering, but said punitive damages should be used more sparingly. That means, says Kasten, that attorneys are now split—the ABA taking one position, the trial lawyers another. "We're now opposed by a minority of lawyers and a small segment of consumer groups," he adds.

Meanwhile, businesses across the country are waiting for some solution. While they wait, some are trying to solve the problem themselves.

For example, food retailers and wholesalers through their trade associations have established their own liability insurance plan to be administered by a major underwriter. Coverage begins after a deductible of $1 million, with the companies providing their own coverage up to that point.

"Our members have had a major problem in getting adequate insurance coverage," explains Denis Zegar, a vice president at the National-American Wholesale Grocers Association. Part of the problem is that many grocery products are packaged in plastic, which adds to the potential hazard in a fire. As a result, his group funded the testing of in-rack sprinkler systems that Zegar says can help keep fire losses down.

The insurance crisis has proven to be a problem for many insurance agents, too. They have lost customers, and now some fear they may be the target of lawsuits themselves, from customers who claim the agents did not adequately meet the customers' insurance needs.

Thomas Miller, an independent insurance broker in Davenport, Iowa, estimates he has lost about 70 percent of his commercial business because he cannot find affordable coverage for his customers. A good chunk of that loss resulted when he was unable to find coverage for a large customer that planned to get into asbestos removal.

A major problem, says Miller, is what the industry calls the "tail"—suits that crop up years after a policy has been written at rates that did not anticipate potential losses.

Thus, some companies are choosing new claims-made coverage—policies that cover claims resulting from sales or events that occur after the policy takes effect—not for the result of products sold years before.

"We're in trouble," says Blair Childs, American Tort Reform Association executive director, "because we have moved so far away from a court system based on fault. We've moved to a compensation system, with the concept that somebody must pay, regardless."

Without relief, Childs warns, increasing numbers of companies will be forced to close. "It's an issue for some companies," he says, "of whether they can even continue to operate." NB

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Personal Management

To Your Health

By Vicki A. Moss and Judith A. Webster

Avoiding Knee Injuries

Denver attorney Thomas O. Ehrenkranz did it skiing in the Rockies. Donald DeMars, chief executive of Donald DeMars Associates, a health club consulting firm in Van Nuys, Calif., did it playing basketball. Baltimore's Harvey Hoffman, regional manager for Seamless Hospital Products, did it one weekend playing football.

They all suffered knee injuries.

They were not alone. As more Americans become recreational athletes, the number of knee problems is rising.

About 500,000 people are hospitalized annually for sprained, strained, dislocated or fractured knees, according to the National Center for Health Statistics in Hyattsville, Md.

However, you can take some steps to prevent knee injuries. And even if your prevention efforts fail, new surgical techniques, rehabilitation regimes and modifications to your fitness plan can soon get you going again in some form of exercise.

Let's begin by looking at what makes your knees vulnerable to problems.

The surfaces of the bones of the knee are covered by cartilage that may tear or fray when your knee twists, as in football or skiing. Other exercises, such as running or aerobic dance on a hard surface, can produce roughness of the undersurface of the kneecap, causing pain and stiffness. In addition, any of the nine muscles that cross and stabilize the knee joint may be pulled and strained.

Body structure plays a role in the kind of injury you are susceptible to. Because females have a wider pelvis and are slightly knock-kneed, they have greater stretchability of the ligaments. This predisposes women to kneecap problems. Males are more inclined to cartilage tears because of their predominant bow-legged structure.

Vicki A. Moss and Judith A. Webster are both registered nurses and wellness consultants in Green Bay, Wis.

These recreational athletes work to strengthen the vulnerable knee joints. Half a million people a year are sidelined with sprained, strained, dislocated or fractured knees.

PHOTO: JEFFRY W. MYERS—UNIPHOTO

Equipment may also contribute to knee problems. Dr. Phillip J. Marone, clinical associate professor of orthopedic surgery at Jefferson Medical College in Philadelphia, says that new ski boot designs put more stress on the knee and make knee injuries the most common type of injury for skiers.

To protect yourself, start with the right gear. Purchase well-made shoes designed for running, aerobics or the activity of your choice. If the surface you use for your activity is hard, provide your own shock absorbers by inserting cushioned pads in your shoes.

"When using weight training equipment, make sure it has built-in safety devices, such as the ability to limit range of motion," advises Joseph E. Theissen, a physical therapist and athletic trainer at Bellin Memorial Hospital in Green Bay, Wis.

Next, follow these measures:

- Strengthen the quadriceps (thigh muscles) by doing straight leg raises from a sitting position.
- Strengthen the entire leg from hip to ankle, not just the knee, with such exercises as bike riding and swimming.
- Warm up and cool down for 15 to 20 minutes before and after exercise. If you are swimming, do a few slow laps as a warm-up. If you are running, start slowly with walking or jogging and then increase the speed.

During cool down, keep moving, but at a slow enough pace that your heart rate can decline gradually. If you are running, walk an additional one-fourth mile at the end of your run. When cycling, cycle slowly on a flat surface or get off and walk.

- Maintain flexibility by stretching after your warm-up. Stretches for specific muscles can be found in such books as *Stretching*, by Bob Anderson (Shelter Books, Bolinas, Calif.).

Suppose you are injured anyhow. The warning signs include pain, swelling, buckling, locking and stiffness. A physician can evaluate the problem by the way the knee looks, feels and moves or by X-ray.

About 70 percent of knee injuries are relatively minor, according to Dr. James Fox, medical director of the Center for Disorders of the Knee in Van Nuys. They respond to rest, physical therapy, ice packs or anti-inflammatory medication.

If further diagnosis or treatment is needed, a relatively new outpatient surgical procedure called arthroscopy can be performed. By inserting a long, slender instrument called an arthroscope through a small puncture in the knee, a physician can see about 95 percent of the knee joint. This surgery is less traumatic to the patient because the knee joint is not opened as it is in more traditional procedures.

Discomfort is minimized, and there is a more rapid recovery. The cost is also less, since the patient is admitted and discharged on the same day.

But arthroscopic surgery is not the only option. Dr. George McGuire, an orthopedic surgeon from Green Bay, treats 90 percent of his knee patients with a quadriceps exercise program. Strengthening these major leg muscles helps relieve some of the stress that the knees would otherwise incur. Only 10 percent of McGuire's patients require surgery.

If an injury occurs, it doesn't mean the end of exercise. Thomas A. Jackson,

a supervisor at Nicolet Paper Company in Green Bay, injured his knee years ago during a high school track long jumping event. But he is still participating in track meets and attributes his success to a planned, safely executed, consistent exercise regime.

After surgery to remove a torn cartilage and a comprehensive exercise program, Harvey Hoffman at Seamless Hospital Products says he takes it easy on football but is back to a full schedule of running and tennis.

Likewise, Donald DeMars still plays basketball, and Tom Ehrenkranz has resumed skiing.

They're testimony to the fact that knee injuries don't have to sideline you permanently from being a weekend or after-work athlete. NB

For Your Tax File

Before refinancing the mortgage on your home, make sure you clearly understand the tax consequences under reform.

By Gerald W. Padwe, C.P.A.

Pitfalls Of Refinancing

In January, we discussed the rash of home refinancings of the past 18 months, brought on by the decline in interest rates and the 1986 tax law provision making mortgage interest one of the last tax shelters available.

Mortgage interest is usually deductible on a principal residence to the extent that the mortgage does not exceed the home's purchase price plus improvements. We warned you in January that Treasury was considering a rule that interest on the portion of refinanced mortgages in excess of that amount might be disallowed, even though the loan was for no more than the original mortgage. This could be the case, for instance, where a home was purchased 15 years ago for $100,000, with a $75,000 mortgage, and the mortgage was increased to $125,000 eight years ago, when the value of the home had risen to $160,000.

As this is written, there is still no formal ruling or regulation on the subject. However, a high official of the Internal Revenue Service confirmed this approach at an informal dinner meeting attended by one of my partners. The official said that, in our example, interest would be deductible only on $100,000 of the mortgage. However—and this is new—the official also said that the IRS was considering a requirement that would limit the refinanced mortgage to a term not substantially longer than the remaining term of the present mortgage, in order for interest to be fully deductible.

ILLUSTRATION: WILLIAM COULTER

This will prove very difficult for some refinancings. If, for example, your present mortgage has only 10 years to go, the rate (plus closing costs) you may have to pay to obtain a replacement 10-year mortgage may be more than would warrant the refinancing.

On a related note, the IRS has issued this ruling on mortgage points: These points are fully deductible when incurred if they are reasonable, reflect common business practice in the community and are paid in connection with a mortgage for the purchase or improvement of your home.

That ruling excludes points paid to refinance a mortgage. A formal ruling, recently issued by the IRS, takes the position that a refinanced mortgage is not for the purchase or improvement of a home; rather, it is for the payment of debt (the earlier mortgage).

Estimated Tax Trauma

Most corporations have to pay estimated taxes, and the Internal Revenue Service imposes nondeductible penalties (9 percent annually) when estimated payments do not meet certain complex legal requirements.

The simplest course for smaller companies expecting their incomes to be at least as great as the year before has been to base their estimated tax payments on the previous year's taxes.

But the rules change for 1987. Corporate rates are going down, and numerous corporations anticipating lower taxes may not wish to base 1987 estimates on 1986 actual taxes.

A likely alternative for such companies is to annualize income. An example is a calendar-year corporation with a second estimated tax installment due June 15. Under the estimated-tax rules, the company may estimate the year's income based on the average monthly figures for either the first three months or first five months of the year, whichever provides a more favorable tax result.

It then would compute its tax at 1987 rates and pay 90 percent of the proportionate tax due by June 15. The same kind of computation would be made for estimated tax payments due at other times of the year.

Assume the corporation determines that its taxable income for the first three months of 1987 is $200,000, which projects to $800,000 for the full year. Then, an unusual sale of assets in April pushes taxable income for the first five months to a whopping $700,000, or $1,680,000 on an annualized basis.

The estimated tax on those annualized incomes would be $309,600 and $671,200, respectively. Clearly, the three-month period permits greater tax deferral by the company, and it would benefit by computing its June 15 payment using those figures.

The critical factor in taking advantage of the lower rates is an accurate determination of taxable income for the three-month or five-month period. Unfortunately, the definition of taxable income in 1987 is vastly different—courtesy of last year's Tax Reform Act—from what it was in 1986. Because the Internal Revenue Service has only recently issued the relevant rules and they are highly complex, there are a number of areas in which it would be impossible today for a company to know its computation was accurate under the new law.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

Recognizing the risk at which the difficulty of determining and applying the new rules has placed corporate taxpayers, the IRS has granted limited relief for estimated tax payments due before July 1. Under a safe harbor rule, companies may assume that their annualized income for 1987 is 120 percent of the taxable income shown on last year's return.

The safe harbor provision will not apply to subsequent estimated installments, however.

The normal annualization provisions described above will apply to payments due after June 30, and those payments will have to be large enough to bring the total for the year to where it would have been had the relief provision not existed. **NB**

It's Your Money

Warren Buffet of Berkshire Hathaway exemplifies the art of getting to the naked truth of your company's annual report to stockholders.

By Ray Brady

The Corporate Report Striptease

Every year about this time, they come flooding in, clogging the mailboxes of America: thick, lavishly illustrated annual reports, full of pictures of smiling executives (to show you they've got everything under control), printed on creamy, expensive paper (to show you the company is solvent). One look at just a few of these reports is enough to convince you that millions of dollars of stockholders' money is spent every year on producing them. (By one estimate, the average annual report costs somewhere between $2 and $6 a copy to turn out.)

But from the viewpoint of you, the stockholder, are they worth all that money?

The problem is that most annual reports are turned out to convince the stockholder that management is really doing a good job—no matter what the numbers might show—and deserves to be kept on. Very few chief executives have the blunt honesty of Warren Buffett, the financial genius from Omaha who runs Berkshire Hathaway. As he told stockholders about the company's profit performance in the firm's 1984 annual report: "This sounds pretty good, but actually it's mediocre."

In effect, Buffett was saying: If you want to profit from reading an annual report, you have to view it with a tolerantly skeptical eye, and you have to know how to read it.

Take one of the key parts of the annual report: the president's letter, usually in the front of the report and a kind of theme which sets the tone for what is to follow. Thornton ("Ted") O'glove is one of Wall Street's more perspicacious analysts and author of a new book on investing (*Quality of Earnings*, Free Press). He sums up the president's letter this way: "It is designed," says O'glove, "to serve as a veil for a striptease—namely, to offer a hint of what is underneath, to indicate shape and form but not to permit too much insight."

Ray Brady is the business correspondent for CBS News.

PHOTO: DAN BUDNIK—WOODFIN CAMP & ASSOCIATES

Reading an annual report, of course, can be hard work. The investigator should be willing to read the president's message with unusual care, though trying, as much as possible, to pierce those veils. All the numbers should be examined carefully. When the company says that its earnings rose 67 percent, were they real earnings, made from the day-to-day operations of the company? Or were they the result of a nonrecurring gain—say, the sale of a big plant or a division of the company?

Look, too, at what's happening to the company's expenses. That's really a simple job, as O'glove points out. If revenues are, say, $100, the company may be paying $90 in wages, raw materials costs and other expenses to garner that $100. But check if those expenses are going up or down. The company may be spending more and more money to push sales up.

Like O'glove, Raymond DeVoe—of the Wall Street investment firm Legg Mason Wood Walker—makes a hobby of perusing annual reports. DeVoe says what is needed to interpret annual reports properly is a "trot"—a translation of what management is really saying to its stockholders. A few examples from DeVoe:

Annual report: "Your company is now poised for significant earnings growth." (Translation: "We lost so much last year and wrote off everything possible, so earnings couldn't get much worse.")

Annual report: "These results were somewhat below the projections that management had announced publicly during the quarter." (Translation: "We lied.")

Annual report: "The quarter's earnings contained a substantial contribution from a settlement arising from the involuntary termination of operating equipment." (Translation: "If the plane hadn't crashed, we would have been in the red. Fortunately, no one was killed, and the insurance company paid off a helluva lot.")

For all the four-color pictures and the verbiage, there are solid reasons for spending some time reading—and thinking about—the annual report.

Analyst O'glove cites the case of an industrial company whose stock had been selling as high as 45½. By the time its annual report came out, the stock had dropped to the mid 20s. In its report, the management of the company put a bright face on things, using lines that Ray DeVoe might have dreamed up—lines like: "Your company continued to protect its future while meeting these short-term challenges."

Was it worthwhile to spend one's time reading such prose? O'glove thinks so. As he points out, a careful reading between the lines—some thinking about what those lines really were seeking *not* to disclose—would have convinced a stockholder that it was time to bail out of the stock.

The reward for that kind of careful attention: Two years after that annual report, the company's stock sold as low as 2¾. **NB**

PEOPLE

Making It

Yearning for the days of campus glories and service with a smile? These entrepreneurs will take you back.

Be True To Your School

As director of retail operations at the University of Southern California in the mid-'70s, Steve Crossland realized manufacturers and retail stores were making more money on the school's name and logos than USC was.

Anyone could make and sell merchandise bearing college logos—from sweatshirts to beer mugs—without paying for their use. Many collegiate symbols were not protected by trademark, and, even when they were, schools often didn't enforce their rights.

So Crossland started licensing USC's logos to selected manufacturers in return for a fixed royalty. Soon, USC had a sideline earning a six-figure income. In 1981, Crossland left USC and founded International Collegiate Enterprises of Woodland Hills, Calif., and expanded his licensing efforts to other schools.

Crossland was not alone in recognizing the market for collegiate product licensing. William Battle saw the opportunity in the early 1980s while working for Golden Eagle Enterprises, which primarily licensed products for golf stars. In 1983, Battle bought the sports management and licensing division of Golden Eagle, relocated in Atlanta and formed Collegiate Concepts, Inc.

In August, 1983, Crossland and Battle decided to unite the two companies as CCI/ICE.

Collegiate licensing is now a joint venture. Battle says the geographic differences between CCI and ICE have posed some difficulties, but in the long run being at two locations has been beneficial to the colleges and the two companies. "It is partly responsible for the tremendous growth rate that we've had," he says.

Today the licensing of collegiate products is a huge business—a quarter of a billion dollars a year, by some estimates. "The market has continued to expand at a rate of 50 to 75 percent a year," Crossland says.

Over the years the business has also diversified. "It's grown a long way from the cap and T-shirt business,"

At Georgia Tech's football stadium in Atlanta, school mascot Buzz gives Bill Battle, right, the "thumbs up" sign of approval for his help in promoting the university. CCI/ICE, a joint venture of Battle's and Steve Crossland's (bottom photo), arranges licenses for about 700 companies to use collegiate logos from 82 schools, including Georgia Tech.

PHOTO: T. MICHAEL KEZA

Steve Crossland of Woodland Hills, Calif., is proud of the large number of collegiate-imprinted consumer goods he has helped license since he pioneered the business.

PHOTO: CHRISTOPHER CASLER

Battle says. Today CCI/ICE licenses manufacturers to produce logo-bearing goods such as high quality glassware, silk neckties and sunglasses. The company also arranges for service-oriented businesses to include collegiate logos in promotional campaigns.

CCI/ICE controls a respectable chunk of the collegiate licensing business. Ten bowl games and 82 colleges pay CCI/ICE to arrange licensing agreements with businesses that want to use the schools' logos. The schools receive average royalties of 6.5 percent of wholesale. CCI/ICE also makes sure that the universities receive the proper amounts in royalty money and that licensed companies keep within their contracts' boundaries.

Consumers and retailers can recognize licensed products by the CCI/ICE "Officially Licensed Collegiate Products" label that appears on about 75 percent of the goods. Battle says once all consumers and retailers recognize this logo as the stamp of an official product, it will effectively enforce licensing. "It's still not having as much impact as we would like," Battle says, "but each year is getting better."

Although CCI/ICE is without direct competition from another independent firm, many schools do run their own marketing programs rather than signing on with CCI/ICE. However, the

Be True To Your School

partnership does manage to deal with many of these schools on special projects.

For example, last September CCI/ ICE arranged for Libby Glass to produce glasses bearing the logos of all 10 Southwest Conference schools for a Mobil Oil Company promotion. Crossland says, "We only represent six of those schools, but we were able to bring the other four into this particular project, which resulted in nice royalty checks to all 10.

"We don't say we represent everybody; we don't *want* to represent everybody. But we do want to represent enough so that manufacturers with interests in this kind of marketing program will come to us. No manufacturer is going to spend the time [it takes] to run down 100 different schools."

One of CCI/ICE's most innovative programs involved a bank that established special savings accounts last year for fans of the University of Kentucky and the University of Louisville. Through CCI/ICE the bank was licensed to establish accounts and market them in the name of the consumer's preferred school.

The accounts bore a fixed interest rate, plus a bonus: If your school's basketball team made it into one of the final four NCAA championship games, your funds earned an extra .4 percent. For every additional game won in the playoffs, another .1 percent was added to the yield. And those who banked on the tournament winner—Louisville, as it turned out—reaped a full 1 percent on top of that.

In the course of the past year, CCI/ ICE also contracted a company to put university logos on credit cards. Segments of the cardholder's annual fees and transaction fees go to the universities, and, so far, five schools have licensed the company. "It can be quite lucrative to the university if its members carry those cards," Battle said.

Occasionally those spending most of the dollars to purchase collegiate merchandise—students—also benefit from the profits. For example, Ohio State has earmarked $100,000 of its royalties for scholarships.

Do the kings of collegiate merchandise wear their own alma maters on their sleeves? Absolutely. Crossland jogs in his California State University (Northridge) sweatshirt, and Battle pursues his recreational activities while sporting the logo and colors of the University of Alabama.

—*Candyce Meherani and Rachel Orr*

"We don't sell oil," Marshall Stevens says of his Oil Can Henry's "fast-lube" centers. "We sell service." From one Portland, Ore., center in 1978, Oil Can Henry's has spread to five states, with 20 centers open and seven more in the works.

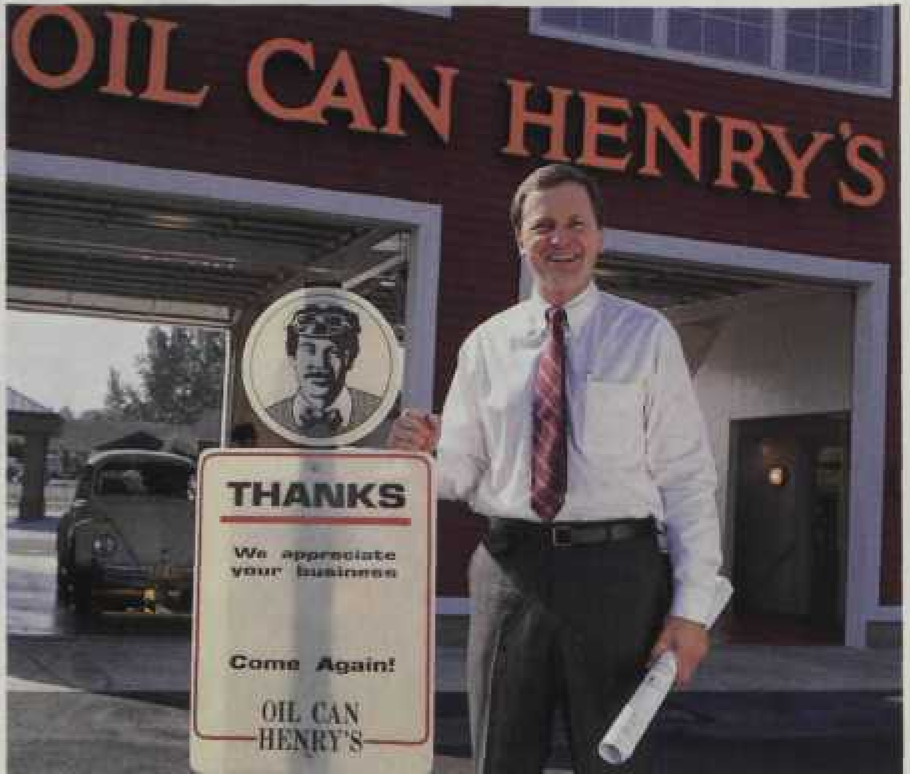


PHOTO: MIRIAM SEGER

Old-Fashioned Service

Marshall Stevens was in commercial real estate in 1978 when a client asked him to scout locations for a "fast-lube" operation—while-you-wait basic car maintenance—in Portland, Ore. The client changed his mind about the business before a site could be finalized. But Stevens, who had always wanted to run his own business, saw the fast-lube idea as one worth pursuing. So, later that year, Stevens and two partners formed the American Lubrication Company and opened the first Oil Can Henry's in Portland.

"We don't sell oil," Stevens says. "We sell service." For about $20, Oil Can Henry's will change the oil, lubricate grease fittings, check key fluid levels and even wash the windshield of a standard car—in just 10 minutes. Other basic maintenance services such as radiator flushes and transmission service take a little longer, but Oil Can Henry's still keeps a strict time schedule. Customers can drive up without an appointment, and, while they sit inside their vehicles, they can watch on closed circuit television screens as the technicians work.

"We want to tell the customer what we're doing is right, and we have nothing to hide," Stevens says. The closed circuit TV is "slick. People like it."

Oil Can Henry's tries to convey an image of old-fashioned quality service that Stevens associates with the days of Henry Ford; hence, the name and the barn red, turn-of-the-century decor of the service stations.

"It's a great concept," says Stevens, pointing to the decline in full-service gas stations and the time and expense involved in having a vehicle serviced at an auto dealership. In fact, it is such a good idea that many major oil companies are promoting their own fast-lube programs.

Stevens fails to let competition intimidate him, however.

Oil Can Henry's consistently spends close to 10 percent of gross sales on advertising. This steady investment has paid off, giving the company high visibility and a growing share of the market in Oregon.

Stevens says the firm has been profitable since the last quarter of 1981. In 1982, he gave up his real estate career to devote his full attention to his fast-lube business.

Then, in 1984, Stevens bought out his original partners.

A graduate in business administration from the University of California

at Los Angeles, Stevens says his lack of automotive training was irrelevant to his decision to enter the automobile service industry.

"Business is so sophisticated today, you need business training," he says. "You can hire people and teach them to be good technicians."

To maintain the company's reputation for speed and service, centers are designed for maximum efficiency, and employees are trained in each maintenance function.

Training in basic auto mechanics is backed up with manuals detailing specifications for models going back to the late 1950s. Stevens says the centers have manuals for 98 percent of the cars on the road.

It takes more than good service and smart advertising to stay in business, Stevens says. "Business success today is measured by narrow margins. If you don't watch every nickel, it will get away from you. You just don't have room for error."

The firm keeps close tabs on its operations through the use of overnight courier services. The Portland office continually analyzes the daily reports it receives on each center's sales, productivity and inventory. Stevens plans to have each center linked to the main office by computer soon.

Oil Can Henry's uses the just-in-time method to control inventory, Stevens says.

"We don't have a warehouse," he says. "We don't have a fleet of trucks. Our suppliers deliver to our centers just in time."

"Our future is at stake every time we work on someone's car," Stevens says. "That person will tell the world how good or how bad we are. We want every customer to say, 'I'll be back.'"

Stevens is busy expanding his business. In early 1985, the firm operated eight Oil Can Henry's, all in Oregon. Today, 20 centers are open and seven more are under construction. The business has branched out into other states as well—Florida, Washington, Arizona and California. "For us not to get run over," Stevens says, "we have to grow."

Oil Can Henry's locates its new centers in areas pinpointed as under-serviced, heavily reliant on automobile transportation and having a high number of cars per capita. Some of these centers will be franchises (one is already open), but Stevens says he plans to continue operating and opening company-owned centers. "You shouldn't be in the business of telling others how to do it if you can't do it yourself," Stevens says. "We're going into business *with* the franchisees—not to compete with but to support them."

With his expansion program actively under way, Stevens is confident Oil Can Henry's will be able to attract its share of customers in the larger market. In 1986, the company earned about $5 million in sales, and Stevens expects to double that figure this year. But he certainly is not complacent. "I don't think you ever have it made," he says. "You can never just coast."

—Joan C. Johnson

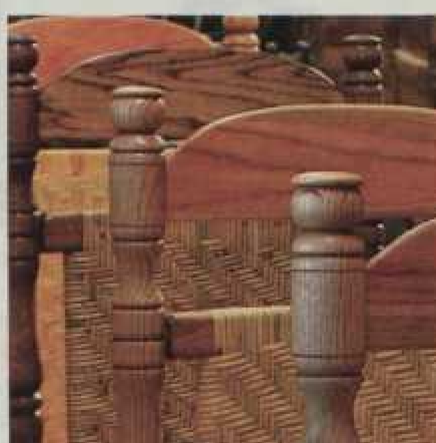
PEOPLE

Southern Comfort

By Del Marth

Mississippi craftsman Greg Harkins preserves a century-old tradition by his handtooling of wooden chairs. His product line includes various styles and sizes, including a child's rocker (below right) and a wedding model built for two. All exhibit the same high quality and attention to detail that made Harkins "Chairmaker for Presidents."

PHOTOS: STEVE SAXTON



The President has two at his ranch and one at the White House. Vice President George Bush owns two, radio commentator Paul Harvey has purchased three, Bob Hope and George Burns have one each, and others are in congressional and gubernatorial offices.

What do these well-known individuals have in common? Greg Harkins' rocking chairs, of course. As his stationery attests, Harkins is *Chairmaker for Presidents, Congressmen, Celebrities and Other Big Dogs, But Mostly Just Common Folks.*

Working in an old barn in Mississippi, the russet-bearded Harkins handtools wooden chairs, following a century-old design. His construction method, which requires no glue or nails, is called shrink-fitting. Harkins explains: "The vertical pieces (posts) are green, and the horizontal pieces (rounds) are dry. And when that green post dries down around those dry rounds, it is not going anywhere."

But Harkins' business is. In 1986, Greg Harkins Chairs grossed $100,000.

Harkins' tools are few and basic, among them a band saw, lathe, gouge and flat knife. "If you took away electricity from me," he says, "in a month I'd be making the same number of rockers I'm making now [4.7 a week]."

"I am not a manufacturer," says Harkins, 35. "Trying to compare what I make to a manufactured chair is like trying to compare Rembrandt with Kodak. Both of them made pictures, but one made them with a brush, and one man went 'click.'"

The sturdy hand-hewn rockers became nationally prominent in 1980 when presidential candidate Ronald Reagan, campaigning at the Neshoba County Fair (east of Jackson, Miss.), accepted a Harkins rocker as a gift.

Then, shortly after the Reagans moved into the White House, Mrs. Reagan ordered a second rocker from Harkins because, Harkins says, "She didn't want the President sitting in her chair all the time."

Harkins delivered a third to 1600 Pennsylvania Avenue in 1983. The President told the chairmaker, "This is the kind of quality our country was founded on and what we must return to."

To ensure that quality, Harkins personally selects the timber, about 20 board feet for each chair. "I go to the sawmill and pick out the logs I want," he says. "It is not just clear timber I'm looking for; I have to buy big, heavy logs. You can't make a chair out of a small tree. A small tree is like celery—the outside is tough, but inside it is tender. And if you use sap timber, the chair will not hold together. It will rot if exposed to years of weather."

Harkins builds several different styles of the shrink-fitted (also called "green-oak") rockers, but most in demand is a large one he calls the Plantation. "About 85 percent of my orders are for the Plantation," he says. In oak it sells for $325; in walnut, $1,400.

Among Harkins' more interesting models are a wedding rocker—which seats two—and a "Nannie" rocker (Harkins' spelling). The Nannie, of pre-Civil War design, features a cradle rocker attached to the side of an adult-sized chair. It gives the person sitting in the rocker freedom of arm movement while rocking a baby.

"Back in 1980, I decided I could make more money by getting bigger, so I hired eight people to do piecework," he says. "In 1981, we turned out nearly 800 chairs. My sales hit $190,000."

But with success came problems. "The business was a nightmare. My net profit dropped to $7,000. And the business got to a point where I just couldn't comprehend it," Harkins recalls. "Everything was eating me up—insurance, you name it. So I started heading back the other way."

Mississippi chairmaker Greg Harkins' handcrafted furniture attracts buyers as far from his workshop as Pennsylvania Avenue.

Harkins uses a chisel to finish the pegged arm of one of his creations (left). Although he does take advantage of some modern technology, such as an electric band saw to cut and shape his wood (right), he mostly uses basic hand tools. Harkins claims that the loss of electricity wouldn't slow him down for long. Within a month he could return to current production levels by reverting to the same methods used by his pre-Civil War counterparts.

Harkins attempted to recapture the pace and simplicity of his early days in the business. In 1976 he had earned a degree in psychology from Mississippi State University and thought about continuing his studies and becoming a surgeon. Meanwhile, he signed on as apprentice to a friend of his grandfather's and one of Mississippi's master chairmakers, Tommy Bell.

"I had no intention of making chairs for a living, but I had worked in chair factories during summer vacations and enjoyed woodwork, especially with Tommy Bell," he says.

When the old-timer retired in 1977 at age 76, Harkins forgot about going to college, established Harkins Woodworks and began making chairs on his own. In 1978, the first full year of operations, Harkins grossed $18,000. (He eventually changed the business name to Greg Harkins Chairs because he was getting calls for "anything and everything made of wood" and felt he needed a more specific name.) A year later he took in $23,000, then $32,000 in 1980.

The publicity accompanying the chair given to Reagan in 1980 soon had Harkins 100 orders behind and led him into his ill-fated expansion.

These days, the bachelor craftsman enjoys working in the abandoned barn he bought in Vaughn, a small town outside of Jackson. "It doesn't leak, and it looks the part for what I do. I have great heat and air conditioning—in the summer it's hot and in winter it's freezing cold," he jokes. And it's also convenient, a short walk down the road from his house.

Harkins adds, "I sell chairs and hunt customers the same way you fish for bass, and that is by throwing the line out there and throwing it out again and again, and suddenly you have quite a stringer full." Harkins' "bait" is his high-quality product sold at a fair price.

Advertising is limited to "a few signs on the nearby interstate and a magazine ad once in awhile," he says. "But mostly my sales come from word of mouth."

Half those sales are in the neighboring state of Louisiana. For some reason unknown to him, Harkins says Louisiana is a chairmaker's best market. Other sales are made throughout the United States and in 18 foreign countries. "My best customer is a Mrs. Smith near Jackson," he says. "She bought my first chair and since has purchased 14 of them. She has lots of grandchildren."

The young chairmaker has never forgotten the advice from his mentor Bell: "Keep quality up, and you'll never run out of orders." Sound advice. Harkins is always running several months behind on orders. "I am good at what I do," he says. "I'm not a perfectionist, just very good. My rockers are high quality, and if one is not right it isn't going out of the shop."

Harkins now expects to be "a chairmaker the rest of my life. I have created a way of life for myself that I'm comfortable with."

Besides, "immortality is what everyone wants. That's why you put a big stone on your grave," says Harkins. "These rockers are my grasp on immortality. As long as people look under the arms of my chairs and see where Greg Harkins signed and dated them, I will be alive." NB

MANAGING YOUR BUSINESS

Direct Line

Answers to questions about marketing ready-to-eat desserts, documenting employee eligibility, patenting a new product and more.

Dessert Boxes, Labels

I want to sell ready-to-eat desserts to local restaurants and supermarkets. How can I learn about packaging and labeling requirements?
A.A., Dearborn Heights, Mich.

The Federal Food and Cosmetic Act governs the packaging and labeling of all food products sold across state lines. To obtain a copy of applicable regulations under this law, write Gerald Fraber, U.S. Food and Drug Administration, 200 C St., S.W., HFI-21, Washington, D.C. 20204.

If your desserts will be sold only in Michigan, you may be subject only to state law. Check with your state food safety agency for details.

Lots Of Lease Options

I own a small business and am considering leasing some equipment. How should I go about finding a leasing company?
A.P., Sugar Hill, N.H.

Leasing is a concept that is as broad as it is popular among small and mid-sized businesses. There are many kinds of leasing and, therefore, many potential lessors.

Begin by reading the article "The New Attraction in Leasing" in the March issue of *Nation's Business*.

If you still are interested in leasing, talk with your banker and local distributors of the equipment you wish to acquire. Also, talk with leasing companies in your local telephone directory, but be sure to check their references carefully.

File Cabinet Filler

I have read in your magazine about paperwork requirements of the new immigration law.

What is the least space-consuming yet legally acceptable way to document the employment eligibility of new employees? I don't want to fill my office with unnecessary paper.
J.S., Silver Spring, Md.

The *only* legally acceptable form for documenting the work eligibility of new hires is the "Employment Eligibility Verification Form," referred to as I-9.

About 8.5 million of these forms were

ILLUSTRATION: WILLIAM COULTER

mailed to employers by the Immigration and Naturalization Service last month. If you have not received copies, write your district INS office or the national office, 425 I St., N.W., Washington, D.C. 20536.

And remember, for each new hire, you should complete, sign and keep this form and a photocopy of supporting documents for three years or for one year after the employee leaves your company, whichever is longer.

You also may wish to obtain the U.S. Chamber of Commerce's comprehensive guide to compliance with the statute, *The New Immigration Law: An Employer's Handbook*. Price is $20 for Chamber members, $35 for non-members. For information on the book and how to order it, see Washington Roundup, page 14.

A Solid Foundation

What is the purpose of establishing a foundation? How are foundations treated under the new tax law?
R.H., Lovelady, Texas

A foundation is established most often by business people as a vehicle for accepting gifts from those who do business for or with you, according to Washington attorney William J. Lehrfeld.

Starting a foundation involves the making of a large number of decisions, such as: Who will govern the institution? What will its purpose be? What will assets be used for?

Legal fees for setting up a simple foundation would be approximately $2,500, says Lehrfeld, and Internal Revenue Service approval takes six weeks to six months.

Contributions to bona fide foundations are deductible under both the old and new tax laws.

For additional advice and guidance, contact your attorney.

Check It Out

I want to open a check-cashing business. Can you give me the names and addresses of companies that offer these franchises?
E.V., Oceanside, Calif.

According to the *1987 Franchise Annual*, a directory of franchisors, check-cashing services are Check Mart, Inc., Don Hayutin, president, 1555 Havana St., Unit B, Aurora, Colo. 80012 and Check-X-Change Check Cashing Service, Jeff Voss, president, 510 S.W. 3rd Street, Portland, Oreg. 97204. Your total investment in such a business would be $50,000-$100,000.

Government Exclusivity Stamp

I have invented a product and wish to sell it to an established company. Must I patent the product first? If so, how can I obtain a patent?
B.B., Tuscumbia, Ala.

You need not patent your product before you sell it, but a patented product often is worth more than an unpatented one. "A patent is a government stamp of exclusivity," and this is a valuable commodity, says Lynn Smelkinson of the National Chamber Litigation Center.

However, she warns, obtaining a patent is costly and can take up to three years. If you wish to undertake the endeavor, consult a local patent attorney.

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

MANAGING YOUR BUSINESS

Graphics Come Of Age

Armed with a no-fuss software package and some affordable accessory hardware for your PC, you can produce quality graphics presentations.

By Karen Berney

Sharon Ruocco, senior planner for Elder Care Services in Rowley, Mass., uses her PC and graphics software to create attractive slides for sales presentations. The system gives her creative control at her desk—and for a fraction of commercial art house charges.

PHOTO: RICK FRIEDMAN—BLACK STAR

It is 4 p.m., and a team from Elder Care Services Corporation has two hours before it departs for a business trip to England. Its mission is to raise money to build a luxury retirement community. To deliver their pitch, representatives will use a slide presentation put together by Sharon Ruocco, the Rowley, Mass., firm's senior planner. But the slide show is not ready. Ruocco is waiting for the financial department to supply the numbers for a few remaining graphs.

"No problem," says Ruocco. "I'll be handing out slides as people are walking out the door." No, the slides are not en route from a graphics art house. Rather, they will be designed, photographed and mounted at Ruocco's desk. From beginning to end, she will spend just 10 minutes and less than $1 each to create slides that have the professional touch of an outside service. The old way would have cost her about $35 per slide and taken five days.

Once again, the personal computer is making affordable what used to be a high-ticket item. With a PC and $2,000 invested in slide-making software and accessory hardware, Ruocco is in control. "I can do what I want when I want without worrying about money," she says. Churning out up to five slide presentations a month is no sweat for this demographic analyst, who "can't draw a straight line with a ruler."

Mark Carroll initially got into graphics to enhance his productivity. As assistant to the president of Southwestern Bell in Birmingham, Ala., one of his duties is to track the number and nature of customer complaints. With Chart-Master, a $375 program from Ashton-Tate, Inc., Torrance, Calif., he produces monthly graphs and updates them daily so he can quickly spot emerging trends.

When it is time to present his findings to upper management, Carroll converts the graphs into color handouts and overhead transparencies. "I probably expend more energy than necessary to get the graphs to look exactly how I want," he says. But to him the effort is worth it. "I can paint my message better in pictures than I can in words."

If you are new to PC graphics, it is best to start out with the minimum investment, advises Allen Paller, president of AUI Data Graphics, the Arlington, Va., consulting division of Computer Associates International, Inc. Stick to an entry-level graphics package and a black-and-white dot matrix printer. Once you feel comfortable with the look and feel of the software, you can consider investing in some of the more elaborate hardware.

While searching for software, keep in mind that 90 percent of the graphics used for business presentations consist of word charts, such as bulleted text outlines, diagrams and tables, says Paller. Line, pie, bar and organizational charts account for 7 percent, with predrawn pictures making up the rest.

Most of the top-selling beginners' programs are a breeze to operate. You specify a chart type, colors and typeface, add the needed labels and data and instruct the software to draw. If you are a novice, however, you will want to pick up a handbook or get some guidance on how to use color for maximum impact.

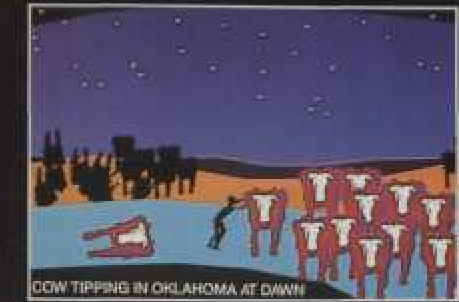
At the high end of the market are programs designed for graphics personnel, like SuperImage ($495) from Computer Associates International Inc., San Diego. It is a drawing system that also lets you enhance, rather than create, charts and graphs from other PC packages. With SuperImage you can change an object's color, size and position to customize an image for a specific audience.

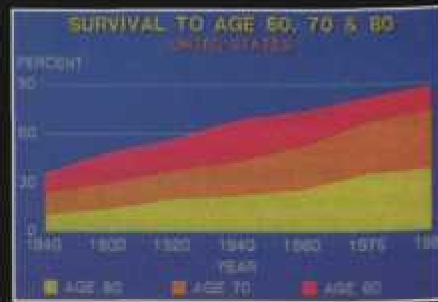
Cathleen Beard, an independent commercial real estate broker in Anaheim, Calif., gives high marks to Diagraph ($395), a line and word charting program from Computer Support Corporation, Carollton, Tex. Beard uses Diagraph to produce brochures that, she says, "amaze people once they find out they were done on a PC." Diagraph is the first piece of software "I didn't need training for," she says.

The programs may be simple to use, but getting your computer ready to run them may take some doing. Much depends on your PC brand. The Apple Macintosh comes out of the box ready to generate and display graphics. The present generation of IBM PCs and compatibles need to be brought up to speed with a plug-in graphics board,

Graphics Come Of Age

Among the growing number of graphics products on the market is one that can help you create eyecatching graphics like these. The two images at left were created with SuperImage from Computer Associates International. It is a complete drawing system that enables a trained graphic artist to create original designs or alter existing





such as the $299 Hercules Graphics Card for standard monochrome displays.

Most programs, however, are designed for full color presentations. Cards that accommodate four simultaneous colors cost about $250; those handling up to 16 go for more than $500. With both, you will also need a color monitor, which can add as much as $850 to the price of the upgrade.

PC graphics can be presented on paper, overhead transparencies, slides or a monitor. In deciding on a format, let your audience be the guide. Your standards for internal presentations, for instance, are likely to be less stringent than those for a sales pitch to a prospective client.

For modest presentations—black-and-white paper handouts and transparencies—the PC's most common companion is a dot matrix printer. Epson, NEC and Toshiba, among others, continue to edge dot matrix technology closer to letter quality.

For a sharper black-and-white image that rivals typeset copy, you might consider a laser printer. Once priced beyond the reach of small companies, laser printers are fast becoming affordable components for producing text and graphics in-house.

A color printer need not break your budget either: Xerox Corporation recently set a new standard with the introduction of a seven-color ink-jet printer priced at $1,595. Dot matrix color printers, which are less brilliant than ink-jets but good all-around office printers, sell for similar prices.

Creating transparencies from graphics software is fairly straightforward. After Mark Carroll makes an on-screen chart, he simply slips a transparent sheet in his color plotter and presses the draw button. For black and white, he sends the picture to a dot matrix printer and copies it onto a transparency loaded in a photocopier.

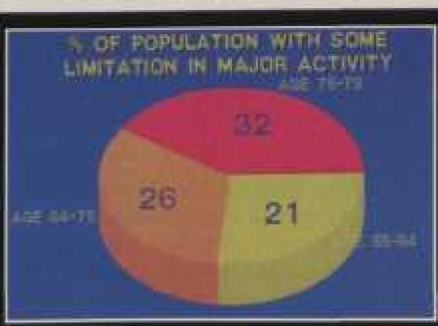
When only the best will do, you need 35mm slides, the slickest medium for business presentations—until now, also a luxury for small businesses. If you have ordered slides from a graphics shop you know how expensive and time-consuming the procedure can be. A slide costs from $25 for a simple sketch to $200 for complex graphics. Delivery is typically five days, and if the results are not what you expected, you may have to pay a premium of 100 to 300 percent for a rush job.

A PC gives you two other options: You can buy the hardware to make slides yourself, or you can send PC-generated graphics to a service bureau to be turned into finished products.

The advantages of making slides in-house are greater security, quick turnaround and creative control, says consultant Paller. High-volume slide producers also reap long-term savings, but some of that cash may have to go to hiring a full-time person to handle the work.

Shooting slides from a PC requires a minimum investment of $2,000 for a

graphics. Elder Care's Ruocco, who admits she "can't even draw a straight line with a ruler," says churning out high-quality graphics is no sweat even for non-artists. She used Polaroid's Palette system to produce the chart and map on the right as well as the graph at right on the facing page. With beginners' packages you specify a chart type, colors and typeface, and add the data. One best-seller for novices is Overhead Express from Business & Professional Software, which helped create the table at left.



film recorder. Elder Care's Ruocco uses the Polaroid Palette—the most popular film recorder on the market—which sells for $1,999 and includes an automatic processor for instant slide film and a mounting kit. The Palette's 35mm camera enhances images so they come out four times sharper than what you see on a standard computer screen.

Using 35mm Express on an IBM AT computer, Ruocco snaps up to 12 exposures at a time and processes them at her desk in 24 minutes. One slide, she estimates, costs 90 cents to produce, a fraction of the $35 she used to pay to a commercial graphics house. With a new type of film, she can also use the Palette to snap large format transparencies that can be displayed at nearly standard size on an adapted overhead projector.

The quality of PC-made slides depends on the film recorder. The higher the recorder's resolution measured by the number of lines that make up the picture, the crisper the image. The resolution of film recorders varies widely, as do their prices. For $5,995, you can make sparkling 2,000-line resolution slides with equipment from General Parametrics Corporation, Berkeley, Calif. And, at the low end of the spectrum, simple screen cameras selling for about $800 capture images just as they appear on the computer screen.

The Palette may be adequate for formal presentations—Ruocco has no complaints—but don't sell quality short, urges Paller.

He cites the case of a firm that used a low cost film recorder for a presentation to an important customer. "Today, no one in the firm will accept responsibility for the purchase, and the equipment is collecting dust," he says.

Finally, you can go for a simulated slide show. You will need a special slide show package that lets you capture images created with other products and edit them into slow-moving picture presentations, even incorporating special effects.

Presentations on a PC screen can work well for a group of three or four. For a larger audience you can use a standard television screen, a projection TV or special video equipment that beams images to a large film screen.

For the ultimate "lights, camera, action" effect, General Parametrics offers VideoShow—a shoebox-sized unit that both creates and displays 2,000-line resolution pictures on a projection screen. With a base price of $4,595, VideoShow is primarily used by large corporations.

Even if you are not a trained artist, you can create informative and eye-catching presentations.

Increasingly, graphics software comes bundled with an ensemble of tools—such as pre-drawn pictures and layouts—that demand little artistic talent to use. With the growing array of no-fuss software and low-cost accessory hardware, you no longer have to be a big business to make a winning presentation. NB

Black Entrepreneurship In America

By William Hoffer

"The world in which the black entrepreneur lives today is very different than it was 75 years ago," says black entrepreneur Andrew F. Brimmer, formerly a Federal Reserve governor and now president of the Washington economic and financial consulting firm, Brimmer & Company, Inc. "Back then, virtually no blacks owned firms that catered to the white market."

Although presidential candidate Woodrow Wilson promised in a 1912 campaign speech to "assist in advancing the interests of the Negro race," once elected he failed to appoint even a privately funded commission to study the black condition, says historian John A. Garraty in his text, *The American Nation* (Harper & Row). And, with Southern segregationists prominent in both the Wilson administration and the Congress, says Garraty, the climate was hardly conducive to fostering black entrepreneurship. It would be decades before the climate would change significantly.

Most white manufacturers, suppliers and service companies in the first half of the century did not view the black community as a major market. Except for a few small variety stores and food markets, whites sold to whites. In return, enterprising black businessmen catered to the black consumer. A network of black-owned-and-operated service businesses, such as banks and insurance companies, filled the small but significant niche ignored by the mainstream of American business.

After World War II, a few black entrepreneurs managed to break through the racial divisions in the marketplace, but they often did so by maintaining low profiles.

Henry Parks, for example, launched his Baltimore-based sausage company in 1951. Few realized its owner was black, and Parks did not advertise the fact. He managed to build Parks Sausage Company into a strong force in the regional meat market. Today, the company is a $25 million-per-year business.

Similarly, Henry F. (Hank) Henderson, Jr., ultimately found commercial success by downplaying his color. Although Henderson had graduated from college with a degree in electronics, he could land only a night job grinding propellers at an aircraft factory.

Publishing giant John H. Johnson overcame racial obstacles in the business world by catering to black consumers. His Chicago company now earns $150 million annually. But, in 1952 (right), Johnson's potential for success was far from a sure bet.

PHOTO: BRIAN SEED—CLICK/CHICAGO

After four months of diligent labor, he was told by the machine shop supervisor of an opening in the electronics division. He arrived for an interview with the electronics department at 8:00 the next morning, but he found the position had been filled, mysteriously, during the night.

"That's when I decided that I had no career with that company," recalls Henderson.

Henderson realized, as have other minority entrepreneurs before and after him, that one solution to racial barriers on the job is to become the boss. So, in 1954, Henderson started his own electrical contracting business in the basement of his New Jersey home. His wife, Ethel, pretended she was a corporate receptionist whenever she answered the company telephone, which was located in her kitchen. Henderson made his initial business inquiries by phone.

The business grew slowly, eventually moving from the basement to the garage. Then, in 1969, Henderson mortgaged his house to help finance construction of a 17,000-square-foot factory (since expanded to 30,000 square feet) in West Caldwell Industrial Park. Today Henderson Industries is a $24 million-per-year company, and a 1983 deal to build control panels for the Ta Chung Hua Rubber Tire Plant made it the first black-owned firm contracted to build equipment for the People's Republic of China.

But getting started wasn't easy. Henderson recalls applying for a $5,000 bank loan and being turned down flat. He obtained the loan only after his father agreed to cosign. That experience may not be unusual for a fledgling business person, but years later, after establishing a track record, Henderson still needed a cosigner to secure a loan. "Today," he says with pride, "I have a $2 million line of credit."

Unlike Parks and Henderson, who managed to break the informal segregation of black businesses, most black entrepreneurs have succeeded by catering to the ethnic market. John H. Johnson built his business upon *Ebony* and

Black business people have faced formidable obstacles in the land of opportunity. Still, many have defied historical racial barriers and led their companies to great successes.

Jet magazines, aimed at the black reader, and upon a line of cosmetics for blacks. When Berry Gordy founded Motown Industries, he also went after the black dollar, and his company became the major producer of "soul" music. These two giants, whose businesses today both hover around the $150 million-per-year mark and have generated jobs for thousands of blacks, magnify the stories of countless smaller entrepreneurs who have tapped a market that was largely ignored by whites.

Then came the 1960s. New emphasis upon civil rights exposed the segregation of the American marketplace and helped to lower racial barriers. The white business world realized that blacks comprised 10 percent of the population—and it was failing to tap that market.

Suddenly, competition for the black dollar heightened as Revlon and other corporate giants moved into the field of Afro-American cosmetics, and white-owned banks and insurance companies also pursued the "new" market.

"Segregation served as a kind of protective tariff for black-owned businesses," consultant Brimmer explains. "That was harsh for black consumers, but it provided a shield for black businesses. Today, the black-owned firm finds itself in a much more competitive environment."

While the atmosphere for black start-ups has dramatically improved, many potential entrepreneurs have been scooped up by enlightened white-owned companies that recognize blacks' abilities and are anxious to even out the ethnic mix on their payrolls.

And, although white-owned businesses are competing successfully for the black dollar, most black businesses have failed to make substantial inroads into the general market. In 1969, black firms' share of black income was about 13 percent. Today, that figure has declined to about 7 percent.

A sampling of today's 100 largest black-owned businesses reveals just three predominant market penetrations. One remains the black consumer market, particularly for cosmetics and entertainment. The other fields are construction and retail auto sales. Aggregate sales of black-owned businesses in 1986 are estimated at $16.6 billion, only 0.31 percent of the U.S. total.

In 1954, 26-year-old engineer Hank Henderson launched his own contracting firm out of his New Jersey home. Today, $24 million-a-year Henderson Industries builds equipment like this control panel (right) for a Newark drawbridge.

PHOTO ED JOSEPH

However, as Parks and Henderson demonstrate, a handful of black business people have moved aggressively and achieved success in the general market.

Another such entrepreneur is Joshua I. Smith, 46, the founder, president and chief executive officer of the Maxima Corporation, Rockville, Md., which packages integrated information management systems.

In 1978, Smith started Maxima with $15,000. His one-room office housed himself, his one employee and a borrowed typewriter. Initially, Maxima sought out government agencies as potential clients, seeking its share of business under the Small Business Administration's minority set-aside program. Maxima landed a series of contracts with the Air Force and the Navy, including a 10-year, $30 million contract to process the payroll for the Navy's 320,000 civilian workers.

By 1985, Maxima employed 532 people and earned revenues of $28 million. Smith had moved the company into the mainstream by adding a commercial division to seek private-sector clients; acquiring smaller, related subsidiaries; and attracting a sizable investment from Martin-Marietta Energy Systems.

Successful black-owned businesses, such as Smith's, do much to balance the scales in the marketplace. However, a new challenge to black entrepreneurship has emerged—competition from other minority groups.

"Black businesses are facing increased competition from new entrants on the business scene," Brimmer says. "Many of these new merchants are Asian. . . . For example, along one segment of 125th Street in Harlem, there is a concentration of 160 retail stores, and 40 of them are owned by Koreans."

If minority entrepreneurs "are to take advantage of the new market opportunities now visible on the horizon," says consultant Brimmer, "they will need to raise a significant amount of capital, enhance their management skills, master a range of sophisticated technology and assume considerably more risk than they have normally faced." NB

SPECIAL ADVERTISING SECTION

Egypt

Egyptian workers are among the best-trained in the developing world. From the petroleum and chemical producing industries to truck manufacturing and the burgeoning tourism services, their productivity is rising.

PHOTO: P. SCLARANDIS—BLACK STAR

American investments are gushing into Egypt. The past two record-breaking years have set the United States above all other Western nations investing there. American businesses have committed more than $260 million to manufacturing, banking and other services and another $1 billion to petroleum-related activities. More than 400 American companies employing over 20,000 people now operate in Egypt. A newly approved General Motors auto-manufacturing project will provide an additional 13,500 jobs. And U.S. exports topped $2.4 billion recently, according to the U.S. Commerce Department.

Why all the enthusiasm about Egypt?

Egypt is fast becoming a commercial oasis for American firms in a region of the world that is not always hospitable to U.S. interests. That country is changing its laws to accommodate high tech business practices. Its political atmosphere is stable. It is centrally located. And the administration of President Mohammed Hosni Mubarak is moving Egypt's economy steadily toward free enterprise in domestic affairs.

In foreign relations, Mubarak is making significant improvements in Egypt's relations with the rest of the Arab world, thus creating more market opportunities. Many Islamic leaders have been concerned about warming relations between Egypt and Israel in recent years, but Mubarak appears to be deftly managing the situation.

In the past 18 months, Egypt has also attracted investments from world-class firms like Procter & Gamble, Johnson & Johnson, American Standard, Chemtex, Trane Corporation and Wyeth Pharmaceuticals. The Egyptian government says there is room for many more investors that are willing to help modernize Egypt's economy.

Egypt offers these advantages:

- A unique location with access to European, African and Arab markets.
- The broadest industrial base in the Arab world.
- A large cadre of industrially skilled workers.
- A system of advanced vocational education centers that offer training custom-made to an investor's labor needs.
- Investment laws that provide tax incentives, profit and capital repatriation privileges and even more special advantages for firms operating in free zones.
- An eagerness to acquire and apply Western technology.

There is yet another significant asset available to foreign investors: capital.

Ayman A. Abdel Ghaffar, commercial counselor of the Egyptian Embassy in Washington, observes that more than $10 billion in the hands of private Egyptian interests and many more Egyptian-owned liquid assets abroad could be invested in

joint ventures with foreigners. "All a foreign investor has to do is come to Egypt with a new good idea, and he will find not only cheap labor, land and resources, but also the means to implement his idea," says Ghaffar.

"Egypt is turning towards a freer economy. We are implementing basic economic reforms designed to open up our society for more opportunities in the private sector.

"We have been working on our infrastructure for more than 10 years—buildings, roads, water and sewer systems, power and many other areas," Ghaffar continues. "Now we are ready for economic expansion that can be built upon this infrastructure. So the investor not only has a highly stable political atmosphere in which to invest but also has the necessary economic tools with which to build his business."

Labor advantages are particularly good in Egypt, says Ghaffar. "You can hire an employee for 62 cents an hour, with another 50 cents an hour for social benefits. The cost is usually less than $1.25 an hour total. In the United States it is $22 an hour," he says.

Richard Kirkman, managing director of General Motors Egypt, says the labor is not only cheap but good at his company's truck and bus factory. "We think our employees here are exceptional," says Kirkman. "At first we were skeptical. We heard that Egyptians were not good workers. That's not true. They are some of the best people I have ever worked with. They train well. Their work is outstanding. They are neat and clean and give high quality production. We've never had any difficulty setting schedules. Our employees come forward with suggestions."

GM Egypt is a big success story. Its truck and bus production facility is a joint venture: 31 percent GM, 20 percent Isuzu Motors, 33 percent private Egyptian funding and the remaining 16 percent Saudi Arabian money. It is licensed to produce 18,200 vehicles a year at Sixth of October City, one of the newly constructed cities in the desert near Cairo. The factory was inaugurated in 1985 and recently completed its 10,000th unit—on schedule.

But it hasn't all been peaches and cream, says Kirkman.

"It takes more than an average amount of patience to work here," he advises. "You have to deal with a lot of government entities. It took us seven years to set up the investment." He suggests that Americans find good Egyptian advisers to help them through the unique business and government climate of Egypt.

Egypt is entering a period of industrial take-off. Government officials are encouraging growth in the private sector with many incentives. Hundreds of the West's top corporations are betting billions in investments on Egypt's future.

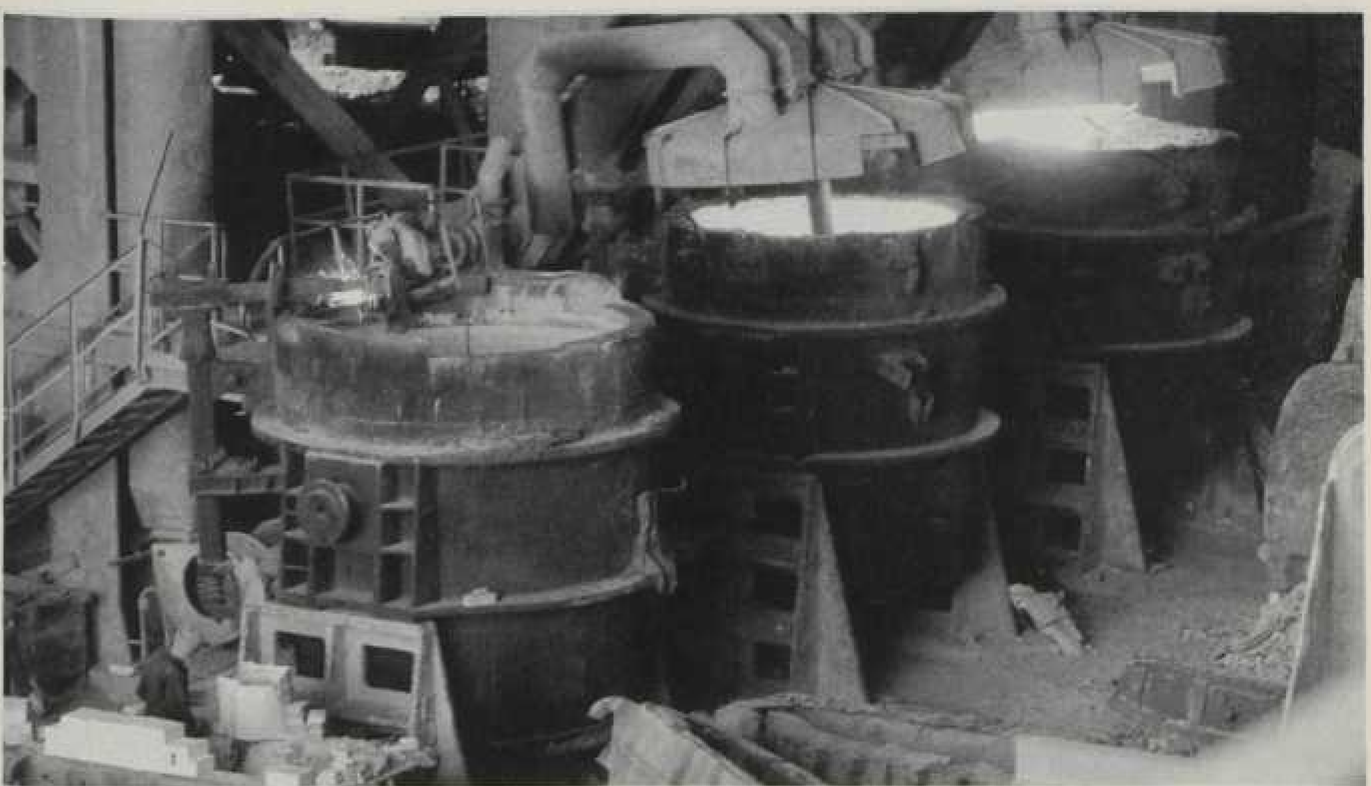


PHOTO: FRED MAROON

Although doing business in Egypt can be exasperating at times, Kirkman says, if Western companies stick it out, the rewards of investing are proportionately far greater than they would be in the United States or in Europe.

Kirkman's advice to prospective investors: "The potential here is excellent, but you have to know the marketplace and understand how the Egyptians think and perceive you as a foreign investor. It is helpful to have good consultants and a project that is well thought-out and financially viable. You have to have a lot of patience and be persistent. If you are willing to invest the time and persevere, you will be successful."

U.S. government analysts say bureaucratic red tape remains a problem for investors in Egypt, but they also say they see signs that many progressive elements in the Egyptian government are streamlining cumbersome processes that interfere with the natural flow of the marketplace. The Egyptian economy is, in fact, truly opening up, as the dramatic U.S. investments story aptly illustrates.

Americans are producing a vast range of products in Egypt. Varco-Pruden links, via telephone lines, its computer in Memphis, Tenn., with a computer-driven system that manufactures prefabricated steel in Egypt. Wyeth Pharmaceuticals uses the latest techniques in making medicine. Pioneer Overseas produces hybrid seeds for desert farming. American Standard manufactures bathroom equipment. Trane manufactures air conditioners. Procter & Gamble produces detergents.

Egypt gives priority to investments that generate exports, encourage tourism or reduce the need to import basic commodities.

The vital statistics of Egypt, taken together, illustrate a growth country with lots of resources and an expanding infrastructure. The population exceeds 50 million—a very respectable domestic market. Its natural resources include petroleum, natural gas, iron ore, phosphates, manganese, limestone, gypsum, talc, asbestos, lead and zinc. Major industries already in full bloom are textiles, food processing, chemicals, petroleum, construction and cement.

Egypt's chief exports are crude petroleum, raw cotton, cotton yarn and fabric. Its most important imports are food, machinery and equipment, fertilizers and wood. Its key trading partners are the United States and the European Economic Community.

More than 90 percent of its grade school-age children are in school, and there are a half million students in the nation's institutions of higher learning. Its youth are among the best educated in the developing world.

A recent report by the U.S. Embassy in Cairo says, "Egypt provides many opportunities for U.S. investors and traders. . . . The large U.S. Agency for International Development, [U.S.] Foreign Military Sales programs and World Bank loans provide opportunities for export sales."

Among the more promising sectors, the report notes, are construction, electric power generation and transmission, water and sewer works, agribusiness and food processing, computers and consumer goods.

The report says, however, that "transportation costs and a variety of Egyptian bureaucratic obstacles make penetration of the populous Egyptian market a challenge, but many have found the effort rewarding. Patience, careful homework and advice from the U.S. Foreign Commercial Service, the American Chamber of Commerce in Cairo, the Egyptian-American Business Council and the U.S. Agency for International Development can all help."

The American Embassy offers this evaluation of the Egyptian business climate: "Egyptians are highly receptive to American products, services and investments. Recently, the low value of the U.S. dollar has given an edge to American suppliers. The positive attitude toward U.S. goods and services, combined with Egypt's resource base and requirements, continues to bring together numerous U.S. and Egyptian traders and investors." NB

The Egyptian Parliament (just below) is anxious to modernize the country, and Egyptian President Hosni Mubarak (seated in truck) is leading his nation's new free enterprise drive.

He helped bring in major firms, like General Motors. GM's Richard Kirkman, with Mubarak, is very high on Egypt.

PHOTO: FRED MAROON

Did You Hear The One About. . .

When you sit down to dinner with a Cairo businessman, try telling him a funny story that makes Egyptians the butt of your joke. The height of rudeness? Indeed not, say those knowledgeable in the ways of Egyptian commercial culture.

This is just one of the many differences in the business manners of Americans and Egyptians. Strange though some of the practices may be to a Bostonian or Atlantan, all are deeply rooted in an economic civilization that is more than 7,000 years old.

Egyptian humor is legendary. It arises from millenia of the sort of adversity that requires a good joke to keep one's balance. Most Egyptian humor is self-deprecating. Egyptians say it is their way of letting off steam when frustrations are too great to cope with.

After telling a good joke at your Egyptian associate's expense, it is also advisable for you then to tell one at your own expense, or at the expense of Americans in general.

This joke will establish that your view of human nature is not harsh, that you're not stuffy and self-important. That is the beginning of trust—the foundation of a com-

PHOTO: GENERAL MOTORS

mercial relationship that could become important to you.

Friendship is the first step toward successful business in Egypt. Canny American traders invite a business prospect out for a meal before even thinking of broaching a serious commercial subject. To "eat bread and salt" with a man—an Egyptian expression—is to bind the friendship, to obligate one man to another. Taking nourishment with an Egyptian is serious business. Food is enjoyed in Egypt with gusto. The table is a friendly place.

Americans are, consequently, advised not to treat the meal casually. Invite your prospect to the best restaurant you can afford and be an unstinting host. But do not bring a gift to him on your first meeting. This will make him suspicious. Keep the gift you have brought for him in your hotel room and hope that all goes well on the first occasion. If you have had a long, con-

For thousands of years, the charms and scenes of Cairo have drawn such tourists as Alexander, Caesar and Napoleon. Many Americans are finding opportunities in the tourism industries that abound in and near this magic city of antiquity.

vivial evening together, the Egyptian will likely invite you to his home for the next step in this evolving friendship.

The gift should be something from the United States or from Europe, something not easy to find in Cairo. When you arrive at his home also have a bouquet of flowers for his wife and perhaps a box of chocolate candy. You should continue to joke with the host and hostess, but no sexual jokes should be told in front of Egyptian women.

Americans have it easy in Egypt, says Mohammed Wahby, director of the Press and Information Bureau of the Egyptian Embassy in Washington.

"The American and the Egyptian will hit it off in no time," says Wahby. "They are both extroverted, love to talk, love life. Egyptians see Americans as having an extremely good image in the world and love the opportunity to have them as partners in business. They see Americans as liking to take chances, as not stingy."

"You have to remember," says Wahby, "when you are investing with an Egyptian you are investing in a friendship."

PHOTO: FRED MAROON

Some final tips on doing business in Egypt:

(1) A commercial visit requires a business visa from an Egyptian consulate. Washington, New York and San Francisco have consulates.

(2) Book your hotel reservations far in advance to ensure getting a room in a good hotel.

(3) Consider hiring your own car and driver. Relying solely upon taxis during business hours could be a problem.

(4) The Egyptian business week is Saturday through Thursday noon.

(5) Check with the American Chamber of Commerce in Egypt for help. Address: Cairo Marriott Hotel. Phone 340-8888. Telex: 20870 AM CHEUN.

SPECIAL ADVERTISING SECTION

International Spotlight

Taipei attempts trade reform and offers incentives to U.S. companies to sell their products in the Taiwanese marketplace.

By Henry Eason

Taiwan Woos American Business

Taiwan, once the lair of trade pirates, is responding on a broad front to American complaints that it winks at trademark counterfeiters, is predatory in pricing its exports and shields its own market from U.S. business.

But the Republic of China's trade reform program may be too late to avoid the wrath of protectionists in Congress. Many there want a drastic reduction in the United States' $15 billion trade deficit with Taiwan.

Meantime, the market is opening in Taiwan, and the U.S. Commerce Department says American vendors should sit up and take note of some new opportunities on the island. Taiwan offers these incentives to Americans over Japanese and Europeans because half its exports go to the States.

Frederick Chien, Taiwan's chief representative in Washington, says Congress and certain import-impacted industries are unfairly making his country "the whipping boy" for American trade woes. Chien, a soft-spoken Yale graduate who once served as Chiang Kai-shek's personal secretary, may have one of the toughest jobs in town. Yet his doggedness and diplomacy have won the respect even of men like Rep. Ed Jenkins (D-Ga.), a leader in the Congressional Textile Caucus and no friend of cheap Taiwanese cloth goods.

Jenkins, also ranking Democrat on the Ways and Means Committee's trade panel, acknowledges that Taiwan is reforming its trade practices but says it "can afford to take action to better balance the scales." Taiwan's foreign exchange reserves exceeded $53 billion last year, higher even than Japan's.

Taiwan is, indeed, planning to spend some of its winnings in the world trade sweepstakes in ways that Chien says he hopes will soothe friction with the United States. The government is putting some big bucks into its "Buy American" program. This includes granting Americans preferential treatment in some of its huge construction projects, like the proposed rapid transit systems for Taipei and Kaohsiung, thermal power projects, harbor expansions, integrated digital networks and new medical complexes.

Frederick Chien, Taiwan's top man in Washington, says protectionists in Congress are trying to make his nation a scapegoat for U.S. faults.

PHOTO: DENNIS BRACK—BLACK STAR

In April, Taiwanese trade negotiators agreed to lower tariffs on hundreds of agricultural products and other goods that Americans produce more competitively than most. The Taiwanese also agreed to allow American law enforcement agents to help them improve their methods of policing trade pirates who violate intellectual property rights. And they promised to continue easing open the door to such American services exports as insurance and banking.

Vincent Siew, director general of the Taiwan Board of Foreign Trade, says his government is painfully aware that protectionists in Washington will make an example of his country if Taiwan does not reduce its trade surplus with the United States.

Chien notes, however, that there is a limit to Taiwanese absorption of American products. He says each of his countrymen bought an average $278 worth of American goods last year—compared with the $75 each American spent, statistically, on products from Taiwan.

One major reason for the trade imbalance, says Chien, is that "your manufacturers think it is too much trouble to sell to small markets"—an observation often made by Japanese and South Koreans.

Chien's government sponsors buying missions to the States. Taiwanese purchasing agents, he says, find that U.S. exporters often are uninterested in tailoring their products enough to make them appealing to Asians. A recent Taiwanese government mailing in New York state to 2,000 firms yielded only 15 responses from American business people wanting to know more about Taiwan markets, says Chien.

American business is still wary, says Rep. Jenkins, because of age-old Taiwanese resistance to any penetration of their heavily protected market.

Mark Van Fleet, director of Asia-Pacific Affairs at the U.S. Chamber of Commerce, sees the new tariff cuts as reason for optimism. "Now we need to jump on these markets ahead of the competition," says Van Fleet. He cautions, though, that "these Taiwanese moves may not be big enough or fast enough to deal with congressional frustration fed by years of trade barriers and our huge $15 billion trade deficit with the Republic of China."

U.S. Commerce Department market analysts say the Taiwan economy is ripe for American merchandise and services exports. "Prospects for U.S. suppliers should be especially bright in high technology areas where U.S.-made products are competitive, specifically in the areas of business information communications systems, industrial process controls, fluid power systems, laboratory and scientific instruments and home appliances," says a recent report.

Chien says his nation's astonishing economic success is based upon the American model—a work ethic he says the United States itself has abandoned in recent years. Instead of beating up his country, he says, the American business community should do what it did to become great in the first place: reduce costs and increase quality. Then, he says, Yankee traders will regain markets not only in Taiwan but globally. NB

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Postpone Enforcement Of Immigration Law?

An effective date of June 1, 1987, was set in the controversial new immigration law for enforcement of provisions making it a federal crime to hire illegal aliens. The past six months were designated as a public education period on the highly complex law, under which employers can be penalized for hiring illegal aliens. The education phase is ending, but there is still widespread confusion over the law. The U.S. Chamber of Commerce says that employers are not prepared to cope with its complexities. As a result, the Chamber has recommended that the public education period be extended six more months and enforcement delayed accordingly. Should Congress grant the extension?

2. Prohibit Reversions Of Pension Plans?

Under current law, companies may terminate pension funds and—once all promised benefits are paid—keep the excess assets. Since 1980, more than 1,338 plans have been terminated, providing companies with $15.9 billion in excess funds. Unions and retiree groups support proposed legislation to outlaw such "reversions," arguing that excess funds should be used to pay benefit increases. Business groups maintain that companies need the flexibility to terminate pension plans when appropriate. Should Congress prohibit companies from terminating pension plans to recover excess funds?

3. Variable Pension Insurance Premiums?

The Pension Benefit Guaranty Corporation, a federal agency that insures most private pension plans, charges employers an annual premium of $8.50 per employee covered by a plan. Even so, the PBGC's liabilities exceed assets by $3.8 billion. To bail the agency out, the administration has proposed a variable rate structure for premiums. Most employers would continue to pay a flat rate. But companies with underfunded pension plans would pay up to $100 per employee annually. Unions complain that the proposal would shut some plants and cost jobs. Should Congress enact a variable rate structure for the PBGC?

Verdicts On April Poll

Here is how readers responded to the questions in the April issue.

	Yes	No	Undecided
Should Congress raise the minimum wage to $5.05 an hour?	14%	84%	02%
Should Congress index future minimum wage increases?	08%	89%	03%
Would a higher minimum wage cost jobs at your business?	60%	26%	14%

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COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Budget Reform	Financial markets and business in general would benefit from reforms in the congressional budget process. Two major reforms—a biennial budget cycle, rather than the current annual cycle, and presidential authority to veto individual spending items in appropriations bills—would contribute to economic growth.	Members of the House and Senate: Support legislation for a biennial budget cycle to replace the current time-consuming annual cycle. Also support legislation to give the President authority to veto individual spending items in appropriations bills. These reforms would allow business to make longer-range plans and reduce unnecessary government spending.
Product Liability	America's product liability system, the most expensive in the world, hinders the ability of American corporations to compete both at home and in international markets. Higher legal costs and extraordinarily higher insurance costs increase the price of U.S. products and provide foreign manufacturers with a strong price advantage.	Members of the House and Senate: A federal product liability law is a high legislative priority of the business community. Excessive legal costs and awards impair the ability of America's businesses to compete in international markets. Support fair and equitable reforms, such as those in the Uniform Product Safety Act of 1987.
Minimum Wage	Proposals to increase the minimum wage by more than 10 percent per year over the next three years and to index subsequent increases to 50 percent of the average nonsupervisory manufacturing wage would have a major impact on inflation. Not only would the minimum wage increase, but wages for those workers earning above the minimum wage would be pushed up.	Members of the House and Senate: Reject legislation that increases the cost of business without increasing productivity. Proposals being considered in Congress would increase the minimum wage significantly and push up other wages. Such inflationary measures harm all Americans—business owners and consumers alike.
Plant Closings	Companies could be forced to continue to operate money-losing plants if Congress enacts legislation requiring consultation with affected workers or their unions before such plants are closed. The consultation process could cover alternatives and modifications to decisions involving plant closings, layoffs of employees, or reduction of employees' hours.	Members of the House and Senate: Oppose plant closing legislation. Passage would create great potential for abuse by organized labor. Unions would have every incentive to use delaying tactics to keep employers from implementing decisions dictated by economic necessity. Managers must be free to make basic decisions affecting their businesses.
Double Breasting	Congress is considering legislation that would ban double breasting (operating a union shop and a nonunion shop) in the construction industry. This measure could force tens of thousands of workers into collective bargaining units without those workers casting a single vote on union membership. Also, it would set a precedent for forcing unionization of all dual shops in all industries.	Members of the House and Senate: Oppose legislation banning double breasting in the construction industry. It would be an unnecessary and unfair limitation on the freedom of employers and employees alike. Such a law could allow unions to double their memberships without having to earn their new members.

LESSONS OF LEADERSHIP

Looking Ahead

Succeeding in business, as well as in life, is a matter of careful planning, says Oliver H. Delchamps, Jr., the U.S. Chamber's new board chairman.

By Del Marth

Neighbors knew them as Alfred and Ollie, sons of European immigrants. They gambled their $1,000 savings on a grocery store, hoping to provide for their widowed mother and their three sisters.

Their small corner grocery would offer an inexpensive alternative to the better food stores in Mobile, Ala.—the ones that gave credit and delivered right to the back door. They called it a "cash and carry" store, a newfangled idea back in 1921.

For the Delchamps brothers, neither of whom completed grammar school, the venture proved foresighted. Most of those "better" stores came and went, but the Delchamps name now is on 94 store fronts in the South.

Today, Alfred's son is president of the Delchamps grocery store chain, which has annual sales of $688 million.

And Ollie's boy? He is, among other things, chairman of the executive committee of Delchamps, the U.S. Chamber of Commerce's new board chairman and an occasional White House guest who discusses the nation's economy with the President.

"I have a special interest in the free enterprise system," says Oliver H. Delchamps, Jr., 54.

That "interest" stretches far beyond the family's grocery chain, which operates today in four states—Alabama, Louisiana, Mississippi and Florida.

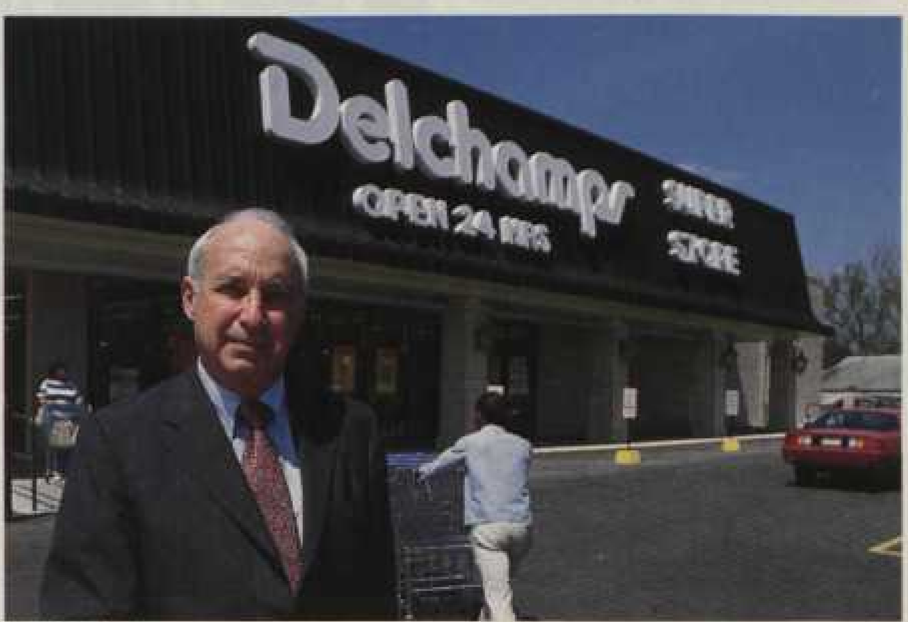
"I've been [involved in] a lot of things—from a director of the Mobile Opera Guild to president of America's Junior Miss Pageant," he says.

Although a nonsmoker and a trim 170 pounds, Delchamps suffered a mild heart attack two years ago. The setback, from which he has fully recovered, was due in part to a schedule full of board meetings, brought on by his perceived responsibility to serve dozens of corporate and educational organizations not only in Mobile but also in the South and nationally.

"Sometimes I think I've done a poor planning job by serving on so many boards," says Delchamps. "But it's hard to turn one down, because it seems that the guy who calls you to serve always is a guy to whom you owe a favor."

Delchamps explains: "My daddy always said that everything the family

"I have a special interest in the free enterprise system," says O.H. Delchamps, Jr., chairman of the executive committee of Delchamps Supermarkets. Delchamps' company has thrived in a highly competitive market.



PHOTOS: T. MICHAEL KEZA

accomplished in business was a result of community support and the people who shopped at our stores. So he felt the Delchamps had to return in kind as much they could. That was his philosophy, and it is mine."

Upon graduation from the University of Alabama in 1954, Ollie, Jr., enlisted in the Air Force. He was discharged in 1956 as a second Lieutenant. "I then began work at a desk right there in my daddy's office," he says. "Of course, I never really expected to do anything else but work for him."

The senior Delchamps and his brother opened five stores between 1921 and 1926, and a Delchamps was made manager of each. (For the sixth store, and nearly every one since, the family has promoted valued employees to the managerial posts.)

In 1968, when the stores numbered nearly 40, Ollie, Jr., was named company president and CEO at age 35. Then, after serving as president for eight years, Delchamps was elected board chairman, a position he held from 1977 to 1983.

While at the helm, he led the company to seek professionals outside the chain, such as specialists in finance and accounting and professional managers in operations. "I got strongly involved with the American Management Association," he says. Techniques learned with the association's help "led us into more sophisticated planning."

Among other results, Delchamps became one of the first in the industry to offer a self-service meat market. "We also were the first in the Southeast to offer generic-label products," says Delchamps, "and the first to introduce automatic scanner checkout systems."

The chain has continued to keep up with technological advances. A computerized distribution center in Hammond, La., was opened in 1985 to service all Delchamps locations. And automatic banking machines in the stores give customers, as management says, "still another reason to shop at Delchamps."

There are nice benefits to working there, too.

Special training programs prepare employees to manage new Delchamps

Looking Ahead

Delchamps serves dozens of corporate and educational organizations not only in his native Mobile, Ala., but also nationally. His philosophy is that the firm's success is a result of community support and the Delchamps have to return in kind as much as they can.

supermarkets. To make employees feel part of the Delchamps family, the company created a profit-sharing plan in the 1940s. "And in the '70s, we set up an Employees' Stock Ownership Plan," Delchamps points out.

He assigns a good share of the credit for success of the Delchamps chain to the ESOP, because it helped create a motivated and profit-conscious work force that today numbers 5,700.

"Our workers have been approached by unions but without success," he says. "We pay really good wages and are 100 percent nonunion. Not having unions lets us run the business without a lot of cumbersome rules" that limit management's options for some of Delchamps' competitors.

Delchamps also avoids the heavy capital expenditures that some competitors incur by not owning large parcels of real estate. "We did own some sites over the years," says Delchamps, "but these days we lease, preferring to use our capital for merchandise and equipment."

He says it now costs more than $1 million to open a Delchamps store. "That $1,000 that my father and uncle used to start the first store wouldn't buy one of the doors" in a new Super Store—42,000 square feet of modern and spacious efficiency.

These large Super Stores offer customers everything from flower arrangements and greeting cards to exotic fruits and vegetables for gourmet cooks. To keep its shoppers, Delchamps regularly renovates or replaces older stores. At the end of fiscal year 1986, 90 percent of its supermarkets were less than 10 years old.

The store practices a merchandising policy that its former board chairman says is "designed to keep us the most competitive food store in each of our markets.

"We explain to customers that the costs of weekly specials, double coupons, games and gimmicks are passed on to customers in food pricing," he says. "So we don't offer such enticements. Instead, two years ago we introduced a new merchandising program called Everyday Minimum Pricing. Our customers do not pay more even though they are shopping at what we consider the highest-quality food stores in town."

The policy means big dividends—for customers, for stock-owning employees and for the Delchamps family. Although all three of his children have worked for the chain at one time, none have chosen to follow their father's path. "Oliver III, 32, prefers a video business and running a steak house, my daughter recently married and is setting up housekeeping, and my youngest boy, who is 27, works in a college's development office," says Delchamps.

Although not yet in the same league as giant food chains such as Safeway and Winn-Dixie, Delchamps' attractive stores and progressive practices have made it a coveted operation. Both A&P and Bruno's, a large Southern grocery chain based in Birmingham, have made buyout offers.

"In both cases," says Delchamps, "we did not think the prices offered were what the company was worth."

In the last five years, sales have jumped from $501 million to $688 million. The company's working capital has risen from $13 million in 1982 to $41 million in 1986, and its total assets have soared from $69 million in 1982 to $159 million last year. Net earnings in 1986 were $8 million.

Even in such a healthy growth company "there is a limit to how long a person can do an effective job," Delchamps says. That's why he stepped down as board chairman in 1983 and became chairman of the firm's executive committee.

"It gives me the time to do more civic work, to take on the U.S. Chamber board chairmanship and to stay active in politics," he says. "And I love politics."

Politics, adds Delchamps, "is little different than running a grocery chain. Both depend a great deal on marketing." Fifteen years ago he tried marketing himself as a Republican candidate for Alabama's State Board of Education, but lost. He does not foresee another run for office, but he does plan to remain politically active as a national GOP convention delegate and as finance chairman for various Alabama congressional candidates.

Planning "is an absolute necessity, not only in one's business but also in one's personal life," he says. "Some folks just don't look far enough ahead." Despite his careful planning, Delchamps admits that for years he fell short when it came to taking time off from his business and civic commitments: "When you're young, you think you can go, go, go. I used to brag that I never took a vacation. No more. Now I begin the year by marking on a calendar a week or two of vacation in spring, another in summer and another in fall."

In another attempt to get his mind off business, Delchamps says he reads "half a dozen Sunday papers trying to keep up with what's going on in the world and in business and, particularly, in politics."

Staying abreast is part of Delchamps' next 10-year plan. Another part, he says, is "planning which of the dozens of organizations I'm involved in I will get out of.

"I'm a born optimist," he says. "I see myself cutting down on some of those board memberships . . . as long as some guy I owe a favor to doesn't call." NB

COMMENTARY

Editorials

"The protection of taxpayer interests and the effective administration of tax laws need not be conflicting goals."

Why We Need To Enact A Taxpayers' Bill Of Rights

ILLUSTRATION: WILLIAM COULTER

The owner of a small business reports that, although he lives near an Internal Revenue Service office, a federal tax agent required him to drive 100 miles to another IRS office for an audit. In addition, the time set for the examination required the taxpayer to close his shop at a peak business period.

As a result of such incidents, Congress is considering legislation that would require the IRS to schedule interviews at times and places convenient for both the taxpayer and the agency.

The provision is part of the proposed Omnibus Taxpayers' Bill of Rights (Senate Bill 604). It is aimed at eliminating what many taxpayers see as excessively heavy-handed collection procedures by the IRS. Basically, the legislation is designed to achieve a better balance between equitable treatment of taxpayers and the agency's vital function of enforcing the tax laws.

Other worthwhile provisions of the bill would require the IRS to notify taxpayers of their rights as well as their obligations; modify levy procedures that can unnecessarily jeopardize the continuation of legitimate businesses; and establish an ombudsman's office with authority to intervene to prevent unjustified harm to taxpayers.

Another benefit of the proposed law is to bring the IRS under the Regulatory Flexibility Act, which requires federal agencies to adopt the least burdensome rules for small businesses.

On the other hand, some provisions of the bill should be modified. For example, a proposal to shift the burden of proof to the IRS in all civil proceedings is overly broad. Such a sweeping change could strike at the ability of the IRS to administer and enforce the tax laws because it would discourage maintenance of complete and accurate tax records and would create an infeasible administrative burden. The taxpayer, after all, is in the best position to substantiate claims questioned by the IRS. At the same time, Congress would do well to look into the question of whether there are some circumstances where the burden of proof might more appropriately be borne by the IRS.

James D. McCarthy, a veteran tax attorney and chairman of the Small Business Taxation Subcommittee of the U.S. Chamber of Commerce, described the proper goal of the legislation in congressional testimony: "We believe that a higher degree of tax compliance would be achieved if the nature of the IRS-taxpayer relationship were less adversarial and less one-sided. ... The protection of taxpayer interests and the effective administration of tax laws need not be conflicting goals. Rather, both goals are compatible, provided that a proper balance is achieved between taxpayer and IRS interests."

Congress should consider the Taxpayers' Bill of Rights in that spirit.

How One Small Step Can Achieve Three Big Goals

Saving lives, reducing workplace injuries and improving your bottom line are formidable challenges.

But there is one simple action an employer can take to help achieve all three: Establishing a "$avings-By-The-Belt" campaign to encourage the use of seat belts. Motor vehicle crashes are the leading cause of on-the-job fatalities and lost work time.

Business concern over reducing the highway toll is evident in a cooperative effort by three major business organizations—the U.S. Chamber of Commerce, the National Association of Manufacturers and the Business Roundtable—to show companies the advantages of the seat-belt campaign.

Employers who follow the recommendation to establish seat-belt programs will make a far-reaching contribution to national well-being.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